Matthew Carpenter

[redacted]

18th October 2023

The Secretary

Department of the Treasury

Australia

Re: Public Comment on Draft Legislation Concerning Taxation of Superannuation Balances Exceeding $3 Million

Dear Sir/Madam,

I am writing to express my concerns regarding the proposed draft legislation that seeks to tax unrealised capital gains on superannuation (SMSF) balances exceeding $3 million.

While I recognise the government's intent to ensure a fair and equitable tax system, I believe this proposal may lead to unintended negative consequences, especially for self-funded retirees with investments in illiquid assets.

1. Illiquid Assets and Forced Liquidation:

Many self-funded retirees have strategically invested in illiquid assets, such as real estate or private equity, as part of their long-term retirement planning.

The proposed tax on unrealised gains could necessitate these retirees to liquidate a portion, if not all, of these assets to meet their tax obligations. Such forced liquidations can result in suboptimal sale prices, significantly eroding the asset base that retirees have painstakingly built for their financial security.

Add to that, the nature of many illiquid assets means they cannot be partially sold, which could lead to a disproportionate erosion of retirees' asset bases, jeopardising their future and that of their families.

2. Rising Cost of Living:

The ever-increasing cost of living means that the purchasing power of today's dollar will inevitably diminish in the future. The static $3 million threshold, while appearing substantial today, may not afford the same financial security in the years to come.

The absence of indexation for this threshold further magnifies this concern, potentially ensnaring an increasing number of retirees under this tax net as time progresses.

It's worth noting that the methodologies underpinning CPI calculations are not static, and as such, even if indexed, it is unlikely to truly reflect the real-world financial challenges faced by retirees.

3. Erosion of Asset Base and Long-Term Sustainability:

As previously highlighted, the proposed legislation could significantly erode the asset base of retirees.

This, combined with the potential need to liquidate illiquid assets at less-than-ideal prices, poses a grave threat to the long-term financial sustainability of self-funded retirees.

The very foundation of an SMSF is to empower retirees with control over their financial destiny.

The government's shift in the mid-1990s towards a self-funded retirement model was a recognition of the challenges posed by an ageing Australian population.

This draft legislation, in my view, undermines that very principle, penalising a segment of the population for their foresight and diligence in planning for their retirement.

4. Broader Economic Implications:

Beyond the individual, there are wider economic ramifications to consider. Forced asset liquidations can depress market values, affecting not just individual retirees but the broader economic landscape.

As a result, I can see a time that if under such circumstances retirees find themselves financially compromised due to an eroded asset base, they might turn to public welfare systems, placing undue strain on public coffers.

This scenario is antithetical to the very reason many worked diligently to ensure self-sufficiency in retirement.

Conclusion

While I comprehend the rationale behind the draft legislation, its potential ramifications for self-funded retirees are deeply concerning.

I implore the Treasury to re-evaluate the proposed measures, particularly the taxation of unrealised gains and the static nature of the $3 million threshold. It's imperative to find a balance that ensures tax equity without undermining the financial stability of our retirees.

Thank you for considering my feedback. I trust that the final legislation will reflect the concerns of all stakeholders, ensuring a just and sustainable superannuation system for all Australians.

Yours sincerely,

Matthew Carpenter