21 July 2025

Economic Reform Roundtable
The Treasury
Langton Crescent
Parkes ACT 2600

Email: ReformRoundtable@treasury.gov.au

Dear Sir/Madam,

Submission on Economic Reform Roundtable

The Institute of Financial Professionals Australia (**IFPA**) welcomes the opportunity to provide this submission on the upcoming economic reform roundtable, which will focus on productivity, economic resilience and budget sustainability. Our submission includes tax, superannuation and other factors that may have a positive impact on Australia's productivity. Many of these options require further analysis and design issues that would need to be considered. As always, our association would welcome an opportunity to share our feedback on any of these matters. For ease of reference, our key recommendations are summarised below.

Tax measures

Address the direct vs indirect tax imbalance

As the International Monetary Fund (**IMF**) and others have repeatedly pointed out, Australia raises a much higher proportion of total revenue from personal and company income taxes than other countries, while the GST raises much less than consumption taxes imposed in other jurisdictions. This has implications for productivity, since the dead-weight cost of those direct taxes is much higher than for a consumption tax (Henry Review and others). Reducing direct taxes would provide an incentive to work and invest more, while increasing the GST (after compensating low-income families) would go some way to reversing the reduction in revenue shared by the States due to significant changes in spending patterns by Australian consumers since 2000.

Increase the GST registration threshold to $150,000

The GST registration threshold of $75,000 has not changed since July 2007. Raising the threshold to take into account inflation since then would take it to approximately $121,000 by 2025. We would recommend raising the threshold to $150,000. This would significantly reduce compliance costs for smaller businesses that are not far above the current turnover threshold and encourage others to start their own business.

Encourage capital investment

To produce more output from a given set of inputs, businesses may need to increase their investment in capital equipment. Private sector investment has been lagging for some time, and consideration should be given to increasing the Instant Asset Write-off threshold to $50,000 for smaller businesses using simplified depreciation. This concession should be extended to larger businesses not eligible for simplified depreciation and it should become a permanent feature of the tax system rather than being announced on a yearly basis.

Non-tax measures

Not all drivers that can boost productivity are necessarily tax related. Governments can help boost productivity through carefully targeted investment in critical infrastructure. Workforce skills and adaptability can be improved through specialised education and training. Our immigration rules could be reviewed to help alleviate the current shortage of qualified tradespersons in the construction

Institute of Financial Professionals Australia
ABN 96 075 950 284
PO Box 226, Flinders Lane, Victoria 8009
(03) 8851 4555
Level 14, 330 Collins St, Melbourne VIC 3000
info@ifpa.com.au

industry, which in turn will help address the supply side of the housing crisis. The development of AI should be harnessed to help boost productivity.

Second round effects

We note the Treasurer's preference for tax proposals that are either revenue neutral or revenue positive. When you boost productivity you grow the economy, which in turn boosts the tax base. If it were otherwise the proposal would not be implemented. We would ask that in costing any policy ideas that might be taken further, Treasury makes a realistic attempt to factor in second round impacts. Failure to cost policy changes realistically risks leaving affordable changes on the table.

Superannuation measures

Division 296 tax

IFPA acknowledges the importance of maintaining a sustainable superannuation system. It is for this reason we remain opposed to the government's proposed Division 296 tax on total superannuation balances (**TSB**) above $3 million. For the system to be 'sustainable', Australians must trust that the rules that apply at the time of their contribution are not radically different at retirement. Sustainability also rests on the public's perception of superannuation's 'fairness'. We have several concerns about the fairness of Division 296 including the taxation of unrealised gains and the lack of indexation of the $3 million threshold placing a financial burden on future generations. Additional design issues are outlined in our previous submissions to Treasury, where we have also put forward practical recommendations to improve the measure.

If the policy objective is to reduce tax concessions for individuals with high superannuation balances, we believe there are more effective and principled alternatives that deserve proper consideration. For instance, taxing actual earnings above the $3 million threshold, rather than unrealised gains, would better align with established tax principles and avoid penalising individuals for paper gains that may never be realised.

Instead of implementing another isolated change, we call for a holistic review of superannuation tax concessions to ensure the system remains fair, sustainable, and fit for purpose. In our view, there are several viable alternatives the government could explore in place of the Division 296 model, including:

1. **Compulsory cashing of excessive balances**: returning to the original policy rationale targeting large or "mega" superannuation balances - which remain the exception rather than the norm - we propose that individuals with high balances be required to either withdraw the excess from the superannuation system or convert it into a pension by a certain age.

   As only $2 million can currently be used to commence a retirement phase pension, a separate class of pension could be introduced for the excess amount. This would apply to amounts exceeding a member's transfer balance cap (**TBC**), allowing those excess funds to be placed into a separate pension structure without there being a limit on balance size.

   This approach would offer the government two important policy levers. First, it would ensure that large balances begin exiting the superannuation environment in a gradual, controlled manner, curbing further accumulation within the concessionally taxed system. Second, it would enable the application of different rules to excess pensions, such as higher minimum drawdown rates or distinct tax treatment.

   For instance, the government could apply an additional 15% tax on investment earnings in the pension phase for balances exceeding $3 million. This would align with the existing treatment of transition to retirement income streams (**TRIS**), where earnings are taxed at up to 15% for individuals under 65 who have not yet retired. Creating a separate class of pension - distinct from standard retirement phase pensions - would help limit the benefits flowing to very large balances, while preserving concessional treatment for the vast majority of retirees.

Institute of Financial Professionals Australia
ABN 96 075 950 284
PO Box 226, Flinders Lane, Victoria 8009
(03) 8851 4555
Level 14, 330 Collins St, Melbourne VIC 3000
info@ifpa.com.au

Overall, this would represent a fairer, more sustainable alternative to taxing unrealised gains, and better reflect the original intent of the superannuation system.

2. **Tax on withdrawals above $3 million**: another alternative to taxing unrealised gains would be to apply a flat 15% tax on the taxable component of withdrawals made from the accumulation phase for individuals with TSBs above $3 million, regardless of their age.

3. **Simplify superannuation thresholds and caps**: the current system includes a complex array of caps and thresholds, such as contribution caps, TSB thresholds for the bring-forward rule, and the TBC. If Division 296 is introduced in its current form, it will add yet another threshold for individuals to track. We propose consolidating and streamlining these rules, potentially by aligning the TBC with the $3 million threshold (indexed) while retaining contribution caps but removing multiple overlapping TSB thresholds. This would simplify retirement planning and reduce compliance burdens.

Implications of retaining Division 296 in its current form

If implemented as proposed, Division 296 would add significant complexity and uncertainty to the superannuation system, potentially eroding trust, discouraging long-term savings, and distorting investment behaviour. This would ultimately reduce productivity by diverting focus from value-adding economic activity toward tax planning and compliance, while also stifling investment, growth, and business confidence.

Further, it undermines economic resilience by disincentivising self-funded retirement, which could increase long-term reliance on the Age Pension and other public supports. This weakens the very sustainability the policy aims to protect.

Crucially, the expected revenue gains from Division 296 may also fall short. Affected individuals are likely to restructure their affairs to invest outside the superannuation system, leading to lower contributions and reduced tax collections over time. This behavioural response could erode the superannuation tax base and negatively impact the federal budget - contrary to the government's stated objectives. These risks underscore the need for a more strategic, long-term review of superannuation tax settings, rather than another short-term measure.

We urge the government to consider these issues carefully to ensure balanced, pragmatic outcomes, particularly those that support small business sustainability, which are vital to Australia's economic growth and resilience.

If you have any questions in relation to this submission, please contact Natasha Panagis on (03) 8851 4535 or n.panagis@ifpa.com.au.

Yours faithfully,

Natasha Panagis
Head of Technical Services

Frank Drenth
Head of Tax Policy

About the Institute of Financial Professionals Australia (IFPA)

The Institute of Financial Professionals Australia (IFPA) is one of the longest-standing bodies supporting the accounting and financial advice community. With a proud history dating back to 1919 originally as Taxpayers Australia, then Tax & Super Australia, IFPA has consistently supported professionals working in tax, superannuation, and financial advice. Today, we represent a vibrant network of more than 22,000 members and supporters, reflecting the strength and resilience of SME-focused practices navigating constant regulatory change. Guided by our three pillars of education, advocacy, and community, IFPA equips members with practical skills and cutting-edge knowledge through high-quality CPE programs. We advocate for fair, sensible policy reform to support SMEs, and create opportunities for professionals to connect, build lasting relationships, and share real-world insights at our events.

Institute of Financial Professionals Australia
ABN 96 075 950 284
PO Box 226, Flinders Lane, Victoria 8009
(03) 8851 4555
Level 14, 330 Collins St, Melbourne VIC 3000
info@ifpa.com.au