Attention Mr David Murray, Chairman

Financial System Inquiry

I have an idea to increase the federal government's revenue without costing the Australian Taxpayer a cent more in taxes. To achieve this I look at the power house nations of the world to see what makes them extremely successful. The answer is through offering something to the rest of the world by way of competitive advantage or specialised expertise. China achieves this through manufacturing and selling their wares world-wide. The UK, USA and Singapore achieve this through offering financial services globally. I look at what Australia does very well and that is superannuation. Australia has the third best superannuation system in the world ranked closely behind Denmark and The Netherlands.[1]

Most nations have inadequate retirement funding systems in place or worse still, nothing at all. Australia has a great humanitarian reputation. My idea fortifies our humanitarian reputation by offering a robust self-funded welfare system to the rest of the world hence appealing to those who lean towards the left. For those who lean towards the right, Australia reaps the rewards of: levies charged, superannuation tax charged and the pay as you go withholding tax (PAYGW) received from the extra staff needed to service this global service. For both sides of politics, it is a golden opportunity for strengthening diplomatic ties. Although this is applicable for all nations, this article focuses on how this can be achieved with Indonesia. The reason for this is because in 2013 the Melbourne Mercer Global Pension Index ranked Indonesia at the bottom of 20 countries it researches. In conjunction with legislative changes, this could be an opportunity to offer self-managed superannuation funds (SMSFs), retail and industry superannuation vehicles to our neighbour. This would assist Indonesia to improve on the Mercer Index, improve socioeconomic conditions for its people without it costing Indonesia or Australia a cent, increase Australia's GDP and strengthen diplomatic ties between Australia and Indonesia.

From speaking with Australian Super, they have said that someone living and working abroad can make post tax contributions to retail and industry superannuation funds here in Australia, however, it is not something that is currently requested. Retail and industry funds are already superannuation power houses with more than enough funds to pay for marketing in nondomestic markets to increase their business and Australia's tax base.

With SMSFs, the ruling on having to be a resident of Australia in order for a super fund to be compliant would have to be changed to open up this fantastic vehicle to foreign markets. This would include making changes to: s42A of the *SIS* Act, s295-95(2) of the *ITAA* 1997 and TR2008/9.[2] You have changed the rules on visas in recent times to allow high wealth individuals to invest in Australia. These individuals do not have to live here for more than

[1] Melbourne Mercer Global Pension Index 2013

[2] Kaplan Taxation Special Topic Materials, Kaplan.edu.au, as cited in Taxation of international amounts, February 2010, page 15.

one month in a year. Nor do they need to be young. Changing the rules pertaining to SMSFs is merely extending the logic of the Significant Investor Visa to SMSFs.

From looking at Federal Treasury's web page, revenue from superannuation for the 2013 financial year was $7.581 billion. This is heavily reliant on income from Australians alone. Why not see if this figure could be doubled within a few years by opening this up internationally and the first nation to be offered this Indonesia?

There are 251,000,000 people in Indonesia[3] making them the 5th largest population in the world, 7,000,000 of which are union members pushing for 3.7 million rupiah a month in the 2014 calendar year which will do nothing to increase the wages of the approximate 40% of Indonesians working in the informal sector. Last year there was a 44% increase in wages for union members who are now seeking a further 50% increase a year on.[4]

The following are tax rates for individuals in Indonesia:[5]

Up to Rp 50,000,000	5%
> Rp 50,000,000 to Rp 250,000,000	15%
> Rp 250,000,000 to Rp 500,000,000	25%
> Rp 500,000,000	30%

Dividends, interest and royalties are taxed at 15% (also note 5).

The following are tax rates on severance pay in Indonesia (pertaining to note 5 above) :

Up to Rp 50,000,000	0%
> Rp 50,000,000 to Rp 100,000,000	5%
> Rp 100,000,000 to Rp 500,000,000	15%
> Rp 500,000,000	25%

The following are tax rates on pension funds or old age saving funds (pertaining to note 5 above) :

Up to Rp 50,000,000	0%
> Rp 50,000,000	5%

Reasons why Indonesians would be prepared to accept Australian rates of tax are as follows. Dividend, interest and royalty amounts derived as income through an Australian superannuation fund are taxed at the same 15% that they would be taxed in Indonesia.

[3] CIA, https://www.cia.gov/library/publications/the-world-factbook/geos/id.html as cited in The World Fact Book July 2013

[4] Wall Street Journal, 8 November 2013 remaining information is not accessible due to CPA's webpage constantly having trouble with accessing ProQuest.

[5] Deloitte, http://www.deloitte.com/assets/Dcom-Indonesia/Local%20Assets/Documents/Indonesian%20Tax%20Guide%202012.pdf as cited in Deloitte Indonesian Tax Guide 2012, Page 23

Assets that earn more than Rp 250,000,000 will enjoy a 15% tax rate in the accumulation phase in an Australian super fund as opposed to a 25 to 30% rate taxed as an individual in Indonesia. Severance pay derived from Indonesia is a good way to boost your Australian superannuation balance enabling greater income to be generated prior to the pension phase. In the pension phase there is presently a 0% tax rate in Australia regardless of the balance of the fund or size of the annuity sought unlike the Indonesian system where 5% is charged on pension funds greater than Rp 50,000,000. Although the retirement age differs in Indonesia to Australia (as explained in subsequent paragraphs), Indonesians can still enjoy the following attractions to an Australian superannuation fund. They may only have sufficient funds in their Indonesian fund to take them to the Australian retirement age, then they will benefit from their Australian sourced pension. The Australian dollar is more stable than the Indonesian Rupiah[6] which may give Indonesians more purchasing power in retirement. As superannuation has been established for 21 years in Australia now, it is a more mature market providing greater stability as opposed to the infancy stage that the Indonesian pension system is currently in with the process of passing compulsory superannuation laws only just commencing as discussed in subsequent paragraphs.

'A large portion of the population is still not covered by the current pension arrangements. The current pension system coverage is limited to civil servants, the military and about 25% of formal sector workers. Only about 12% of the total labour force is covered; much of the formal sector and the entire informal sector are not covered.'[7] There are 4.5million contributing civil servants, 9.3million contributing formal sector workers and 2.8million contributing private pensions.[8]

Retirement age is: 56 for civil servants or 50 with 20 years of service, 55 for formal sector workers or 5 years of contributions for termination and in the private sector it is commonly 55 but maximum of 60 years of age.[9] This means that 59% of the population are of working age (17.1% for 15 – 24 and 42.2% for 25 -54 years of age). 14% are 55 years of age or older. Life expectancy is 72 years of age, 69 for men and 75 for women. With 26.6% of the population being 0-14 years of age,[10] there is a great opportunity to get a large percentage of Indonesians involved in utilising the services of Australian superannuation funds to have adequate retirement savings. The World Bank believes that the retirement age in Indonesia is low compared to life expectancy. 'Currently retirement ages vary significantly by program and type of group. The standard retirement age for civil servants is 56, but can be extended

[6] Helen Brown, http://www.abc.net.au/news/2013-08-28/indonesian-government-policy-change-economy/4917006 as cited in Indonesian government confident of restoring economic stability, 28 Aug 2013

[7] Iene Muliati, http://www.imf.org/external/np/seminars/eng/2013/oapfad/pdf/muliati_ppr.pdf as cited in Pension Reform Experience Indonesia, 9-10 January 2013 Page 11.

[8] Iene Muliati, http://www.imf.org/external/np/seminars/eng/2013/oapfad/pdf/muliati_ppr.pdf as cited in Pension Reform Experience Indonesia, 9-10 January 2013 Page 10.

[9] Iene Muliati, http://www.imf.org/external/np/seminars/eng/2013/oapfad/pdf/muliati_ppr.pdf as cited in Pension Reform Experience Indonesia, 9-10 January 2013 Page 9.

[10] CIA, https://www.cia.gov/library/publications/the-world-factbook/geos/id.html as cited in The World Fact Book July 2013. All aged based information in this page is sourced from this web site.

for certain positions to 60, 62, 65 or 70 based on the government's needs. Civil servants can retire as early as age 50 with a minimum of 20 years of service. Most private sector employees retire at age 55 but some are eligible for early retirement as early as age 45.'[11] The retirement age for international superannuation holders may need to be commensurate with the average age with which they are expected to live by their country's standards. For Indonesians this age is 72, for Australians, this age is 82, 80 for men and 84 for women.[12]

As the civil service pension is a defined benefit pension or annuity benefit for life, the sustainability of the system is dependant upon the integrity of those who are responsible to put money aside when they are supposed to, to make sure there is no shortfall in the system upon the person's retirement.[13] The problem is further exasperated with the Jamsostek old age savings program whereby the superannuant receives a lump sum with no stipulation that any of this has to be utilised over the remainder of the recipients' life. 'Furthermore, the Jamsostek account balance can be withdrawn if a worker becomes unemployed, has contributed to the program for 5 or more years and has been unemployed for 6 months or more.' In fact, early withdrawal for 5 or more years membership accounted for 89% of the payouts from Jamsostek old age savings in 2010 and 2011.[14]

'Labour Law No. 13/2003 (referred to Labor Law 13) requires employers to pay defined benefit (DB) termination indemnities to permanent employees upon termination. Labor Law 13 benefit varies by years of service. As Labor Law 13 is not funded, there is no guarantee of receiving the benefit upon termination of employment (see note 14). The Labor Law does not require pre-funding of the severance pay benefit, but its accrued liability and accounting expense must be recognized in the company's financial statements. This can have a significant effect on the company's net worth and profitability, particularly for publicly listed companies.' (see note 14). By utilising the services of an Australian superannuation fund, the expense would exist but the liability would be paid on a regular basis to an Australian superannuation firm creating a balance in the Australian superannuation fund waiting to be applied to a given staff member upon their termination and reaching retirement age, thereby reducing liabilities on companies' books.

'Disclosure was poorly managed by PT Jamsostek until recently. Although it now publishes annual financial statements in nation-wide newspapers, it has not satisfactorily informed the public about the management of its assets and liabilities. Moreover, disclosure of benefit information to participants is also lacking. Some participants may have received an individual benefit statement but the majority doesn't know the amount of his/her

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[11] Iene Muliati, http://www.imf.org/external/np/seminars/eng/2013/oapfad/pdf/muliati_ppr.pdf as cited in Pension Reform Experience Indonesia, 9-10 January 2013 Page 13.
[12] ABS, www.abs.gov.au and the World Bank.
[13] David Crane, http://www.bloomberg.com/news/2013-06-24/traditional-pension-plans-can-still-work-really-.html as cited in Traditional pension plans can still work. 25 June 2013
[14] Iene Muliati, http://www.imf.org/external/np/seminars/eng/2013/oapfad/pdf/muliati_ppr.pdf as cited in Pension Reform Experience Indonesia, 9-10 January 2013 Page 14.

contributions and accumulated account balance.'[15] With having funds in an Australian superannuation fund, people would be able to plan for their retirement with more certainty knowing exactly what their balances are, how much their fund earned that year and what they are likely to retire on with the contributions currently being made. 'Indonesia's ratio of pension assets to GDP is lower than in neighbouring countries. However, a higher ratio of pension assets to GDP does not guarantee the adequacy of a pension system or a higher rate of economic growth. Rather, it will depend on the pension system structure itself, the development of local capital markets and other factors. Nonetheless, the lack of pension asset management supervision, control and transparency under the mandatory pension plans is a major impediment to pension asset growth, especially for the civil service pension program and Jamsostek's old age savings program. Only private pension programs are strictly regulated by the Ministry of Finance. Good governance and also investment policy requirements for private pension programs are set out clearly by the Ministry of Finance and annual reporting by independent professional auditors and actuaries is required at least once every three years.' (see note 15). Unlike the civil service pension program and Jamsostek's old age savings program, the Australian superannuation system is quite robust with pension asset management supervision control measures and transparency. As stated by the World Bank in Jakarta, 'The government of Indonesia should learn from other countries' experience, especially from those countries whose systems have already been around for more than 15 years.'[16] Australia fits this bill very nicely with having compulsory superannuation now for 21 years.

When one mentions taxes on the international stage, Double Tax Agreements (DTA) need to be considered. In article 18 of Australia's DTA with Indonesia, paragraph one says that if you are a resident of Indonesia and you receive a pension from an Indonesian source, then you are taxed in Indonesia. Paragraph two says that if you are an Indonesian resident who receives a pension from Australia, then the pension may be taxable in Australia so long as the tax does not exceed 15%[17]

The Indonesian DTA with Australia has no specific article on the tax implications of taxing pensions in the accumulation phase. Article 22 discusses income not expressly mentioned in any other article of the agreement. Paragraph one states that if you are an Indonesian resident who has income from Indonesia 'that is not expressly mentioned in the foregoing articles of this agreement, then you are taxed in'[18] Indonesia. Paragraph two states that if you are an Indonesia resident with a source of income from Australia, then you are taxed on this income in Australia.

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[15] Iene Muliati, http://www.imf.org/external/np/seminars/eng/2013/oapfad/pdf/muliati_ppr.pdf as cited in Pension Reform Experience Indonesia, 9-10 January 2013 Page 15.
[16] Iene Muliati, http://www.imf.org/external/np/seminars/eng/2013/oapfad/pdf/muliati_ppr.pdf as cited in Pension Reform Experience Indonesia, 9-10 January 2013 Page 23.
[17] Australian Treaty Series www.austii.edu.au/au/other/dfat//treaties/1992/40.html 14/12/1992
[18] Australian Treaty Series www.austii.edu.au/au/other/dfat//treaties/1992/40.html 14/12/1992

The practical implications of this would work as follows. An Indonesian resident makes an after tax contribution of $10,000AUD a year to an Australian superannuation fund in the accumulation phase. The fund invests this money and makes the superannuant $1,100AUD in the first year. The Australian Fund deducts applicable fees of $200 to $400 and then remits 15% tax of $150 here in Australia. None of which is passed onto Indonesia. The following paragraphs provide some back ground information to expand the aforementioned calculation out to potential income to Australia.

As of October 2013 the ABS states that there are 11.6 million employed persons in Australia.[19] Although one may have superannuation with one of the following funds: corporate, public sector, retail, industry, self managed superannuation or small APRA fund, only the last four are going to be discussed. In June 2012 there were 15.4 million retail member accounts and 11.7 million industry member accounts with an average balance of $24,100 and $22,900 respectively. This equated to contribution tax and surcharge of 2.8 billion Australian dollars for retail funds and 3.6 billion Australian dollars for industry funds.[20]

The average rate of return for a retail fund from June 2003 to June 2012 was 3.4%. The average rate of return for an industry fund for the same period is 5.1% Although SMSFs and Small APRA Funds account for only 918,000 members, the average account balance is $480,400. When asset balances start to be considered, the true extent of the revenue from SMSFs and Small APRA Funds can be seen. Retail has $371.4 billion, industry has $267.3 billion and SMSFs and Small APRA Funds combined have $440.9 billion in assets.[21] Although retail and industry funds have the ability to receive after tax contributions from people who are domiciled abroad, it is SMSFs and Small APRA Funds that have the greatest potential to increase Australia's tax base in light of the aforementioned information.

To quote from page 3, 'there are 4.5million contributing civil servants, 9.3million contributing formal sector workers and 2.8million contributing private pensions.' According to the IMF, high paid civil servants can receive pensions of less than 20% of total pay at retirement.[22] According to AMP, Australians will need 65% of their preretirement income to maintain their current lifestyle in retirement.[23] 'For example, if you currently earn $70,000, then you'll need $45,500 a year to maintain your current life style in retirement' (note 23). If

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[19] Commonwealth of Austrlia, 6202 Labour force Australia Oct 2013 as cited in abs.gov.au/ausstats/abs@.nsf/mf/6202.0

[20] APRA, http://www.apra.gov.au/Super/Publications/Documents/June%202012%20Annual%20Superannuation%20Bulletin.pdf as cited in Statistics Annual Superannuation Bulletin, June 2012 issued 9 Jan 2013. Page 31and 39

[21] APRA, http://www.apra.gov.au/Super/Publications/Documents/June%202012%20Annual%20Superannuation%20Bulletin.pdf as cited in Statistics Annual Superannuation Bulletin, June 2012 issued 9 Jan 2013. Page 31and 45

[22] Iene Muliati, http://www.imf.org/external/np/seminars/eng/2013/oapfad/pdf/muliati_ppr.pdf as cited in Pension Reform Experience Indonesia, 9-10 January 2013 Page 13 and 14.

[23] AMP, https://www.amp.com.au/wps/portal/au/AMPAUGeneral3C?vigurl=%2Fvgn-ext-templating%2Fv%2Findex.jsp%3Fvgnextoid%3Db5b9830d8b753310VgnVCM1000008801440aRCRD

65% of preretirement income is needed to maintain a current lifestyle in retirement in Indonesia too, then there is a massive gap in what the Indonesian government pays in pensions to civil servants and what is needed to maintain the same lifestyle in retirement. Although civil servants must contribute to their retirement savings, there is nothing preventing them from making after tax contributions to an Australian fund to supplement this and provide for an adequate retirement income.

To come back to the example above, if Australia were to capture 20% of the 4.5 million contributing civil servants, 20% of 2.8million contributing private pensions and 10% of the 9.3million contributing formal sector workers, then there would be 900,000 + 560,000 + 930,000 = 2,390,000 more people contributing to the Australian revenue pool. If they each had the same average balance of $24,100 in their Australian retail superannuation fund as what Australians have, then an additional $293,754,900 in tax can be collected as calculated below. This is very conservative and only looking at the early years of the accumulation phase and collecting contributors.

$24,100.00	Average balance in Australian superannuation fund
3.4%	Average rate of return on retail funds over ten years
$819.40	Investment return net of fees
15%	Current tax rate
$122.91	Tax raised from one account
2,390,000	Superannuants from Indonesia
$293,754,900.00	Revenue to the Australian government

These calculations are before growth projections of the Indonesia economy are taken into consideration. Indonesia has an annual economic growth rate of 6%.[24] This year it is projected to be 6.6% and next year Indonesia has set itself the target of 7% growth (also note 24). Indonesia has the potential to become the world's 7th largest economy by 2030 (also note 24).

As the current president is in his second term, he cannot be re-elected in the 2014 presidential campaign. This paves the way for Australia to negotiate a better pension system for Indonesia with the incoming president by servicing Indonesia's pension needs through Australia's robust superannuation system.

There are various facets of this that need to be addressed. Making after tax contributions to funds in the accumulation phase and the tax treatment in both countries has already been discussed. Making pre-tax contributions to superannuation here in Australia and why the reciprocating nation would allow tax on wages to be forfeited is addressed below. Taxing in the pension phase has also already been discussed.

[24] Daniel Allen, In the Black magazine as cited in The Next Asian Giant. March 2013 page 35

For an Indonesian resident for tax purposes who makes pre-tax contributions to an Australian Superannuation Fund, the Indonesian government would need to allow it. Reasons the Indonesian government may allow this are as follows. The people will be less reliant on their government to look after them in retirement. At present the Indonesian government heavily subsidises fuel and electricity for its people. In 2011 this accounted for 20% of government spending.[25] With people putting aside for their own retirement, they may be less reliant on the government for fuel and electricity subsidies.

To maximise the revenue received from this idea, I propose the following:

- Having a higher levy for SMSFs not considered to be Australian residents;
- Removing the ceiling on what can be contributed;
- Making sure our DTAs allow Australia to reap the maximum 15% on pensions in the accumulation phase;
- Taxing pensions being drawn from superannuation funds for foreign residents;
- Stipulating that all superannuation work must be performed here in Australia ie there can be no outsourcing of services to ensure maximum PAYGW is contributed to the Australian Taxation system.

With changing a higher levy to nonresident SMSFs, if non-resident SMSFs were charged say $500 instead of $321 to lodge a tax return, $119,500,000 would be raised in addition to the above calculation.

$500.00	Proposed levy for nonresidents
239,000	Additional SMSFs calculated as 10% of estimated target market
$119,500,000.00	Additional revenue to Australian government to above calculations

With removing the ceiling on what can be contributed., people who want to use SMSFs are more comfortable with wanting to handle the destiny of their finances. In Australia it is not advised to have a SMSF unless you have a minimum $200,000.00 to start the fund. At present the rules state that you can contribute $150,000.00 a year towards your after tax contribution in your fund or $450,000.00 three years in advance but no more after tax contributions can be made for another three years. Government taxes raised are a direct result of how much money is in a SMSF and how well that SMSFs investments have performed. Levies are a flat rate and depend on how many SMSFs are in existence. With this in mind, to maximise government’s revenue, I propose that SMSFs can be established with $1,000,0000.00 per participant with no consequence on the $150,000.00 after tax contribution made each subsequent year. The result is a much faster collection of revenue for the Australian government as shown below:

[25] Daniel Allen, In the Black magazine as cited in The Next Asian Giant. March 2013 page 36

$1,000,000.00	Initial SMSF balance
5%	Return net of expenditure
50,000	Net fund income
15%	Current tax rate
$7,500.00	Tax revenue from one SMSF member
239,000	Additional SMSF participants
$1,792,500,000.00	Tax revenue received on $1,000,000 opening balance
$860,400,000.00	Tax revenue received on $480,000 opening balance
$932,100,000.00	More tax revenue by allowing a larger SMSF opening balance

On the matter of tax derived from individuals, nearly half of the tax revenue in the 2012-13 federal budget comes from this source alone.[26] Presently, retail and industry funds are outsourcing much of their work overseas. With accounting being one of the most popular degrees studied here by foreign students who then wish to stay in Australia once their study visas have expired, why not allow them to stay, thereby increasing Australia's population and our revenue source by generating more from PAYGW? This could be a way to address the declining tax to GDP ratio. Treasury mentions that this ratio 'will remain below its pre Global Financial Crisis highs, notwithstanding continued solid real economic growth.' [27] Increasing GDP will also increase tax revenue.

Australian Super necessitated 254 ground staff and 66 board, executive and management staff to service over two million members last financial year.[28] When you start considering how many more processing and administration staff would be required to service members from abroad, then this number would increase and subsequently so would PAYGW, levies and superannuation taxes.

Changing the residence rules in SMSFs to enable foreign residents to have compliant SMSFs has the potential to provide the government with an even greater pool of funds as demonstrated below.

[26] Author, FINAL BUDGET OUTCOME 2012-13 as cited in www.budget.gove.au/2012-13 SEPTEMBER 2013. Page 40/50 note 3a headed Taxation revenue by source states that Income and capital gains levied on individuals is 164,529 with Total taxation revenue being 337,323. The former divided by the latter is 48.77%

[27] John Clark, Adam Hollis, Tax Analysis Division of Australian Treasury, Tax to GDP: Past and prospective developments as cited in http://www.treasury.gov.au/~/media/Treasury/Publications%20and%20Media/Publications/2013/Economic%20Roundup%20Issue%202/Downloads/PDF/2-Tax-to-GDP-ratio.ashx 6 Dec 2013 Page 2/16.

[28] Australian Super as cited from the Annual report 2013. Pages 7 and 59.

$480,000	Average SMSF balance
5%	Return net of expenditure
24,000	Net fund income
15%	Current tax rate
$3,600.00	Tax revenue from one SMSF
239,000	Additional SMSF member calculated as 10% of estimated target market
$860,400,000.00	Tax revenue received
$119,500,000.00	Levy received (239,000 x $500)
$979,900,000.00	Additional revenue annually to the Australian government

This calculation does not take into consideration the additional pay as you go withholding tax that would be derived from the extra staff required to create the funds, administer the funds, provide financial advice, process the tax returns and audit the funds. Nor does the calculation take into consideration the implications of 50% pay increases year on year to Indonesian union members.

The above calculations are based on the additional revenue that could be derived from servicing just one additional country. These numbers would be multiplied several fold by offering this to all nations.

Governments around the world express their desire to close the gap on tax havens and tax avoidance from their residents. Many cultures have black boxes of money. This money has been earned in some way but has never been taxed. These funds are used for loans, provided to other family members upon death and utilised in retirement. Why not encourage people from around the world to want to pay their share of tax by allowing them to grow this capital with a 15% tax rate on earnings. This service would draw out a lot of the black box money as people are allowed to grow their money without having to pay an exorbitant rate of tax and it provides for their retirement.