**The elephant in the room – superannuation income**

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The latest skirmish between the government and opposition is on Bill Shorten's proposed changes to dividend imputation through which companies generate "franking credits" when they pay company tax. These franking credits attached to dividends are used by shareholders to obtain credits against their tax liability. In essence, Shorten's new measure seeks to close a long-standing loophole in the tax code, which allows individuals and superannuation funds to claim cash refunds for any excess franking credits that were not used to offset tax liabilities. Shorten's new measure is estimated to save the budget around $11.4 billion over the forward estimates.

Now that this complex loophole has been brought out for scrutiny in the harsh light of day people are starting to question how our current franking credit arrangement provides cash in exchange for a tax credit for individuals that don't pay tax. The Turnbull government has been quick to defend this arrangement, despite what appears to be an obvious anomaly in the tax code. They have argued strongly that these changes will impact low paid people, especially part pensioners and self-funded retirees. Unfortunately the government hasn't been as concerned for those 80 000 vulnerable Australians who will soon have cuts to their welfare payments which come on top of the $12 billion in cuts to social security since 2013.

The Revenue Minister Kelly O'Dwyer claims that the majority of individuals impacted by the proposed changes to the franking credit policy have a taxable income of less than $18,200. These Australians include pensioners, part pensioners, veterans, war widows, and self-funded retirees. While this might be technically correct, it certainly isn't the whole truth. When it comes to concessions, especially those that apply to the wealthy, the government tends to rely on the expression "taxable income" when describing the income levels of those affected. Taxable income is the difference between your assessable income and allowable deductions. Therefore, by way of example, an employee earning $100,000 with no deductions would pay around $24,632 in tax. However, an employee with say $20,000 worth of allowable deductions would have a taxable income of $80,000 and would pay $17,547 in tax, an overall net saving of around $7,000.

Today many middle class Australians trade in both the share and property markets. Many of them also own negatively geared investments, which allow them to offset the losses from their investment against their income, which can result in them earning little or no assessable income, and therefore pay no tax. However, these people are not the target of Shorten's policy. Under changes made during the Howard government years with respect to retirees over the age of 60 years, super funds are income tax free and payments to retirees are non-assessable income. It is easy to see why the cashing out of "franking credits" is such an attractive loophole for people wanting to supplement superannuation incomes.

Rather than arguing over whether the tax credit cash out loophole should remain part of tax code, it maybe more prudent for the government and opposition to be looking at the elephant in the room - the treatment of superannuation income. If superannuation income was treated like any other income, these sorts of loopholes in our tax code would not be anywhere near as attractive. Continuing with the current tax-free superannuation arrangements for the over 60s is fraught as the next wave of retirees, Generation X, start planning for life after work.

So what to do? First, we need to move to a 12% super guarantee much faster than the current planned 2025/26 target. (Maybe some of the proposed corporate tax cuts should be quarantined for this purpose.) Second, superannuation should be paid for your entire working life. The statistics on the growing rate of homeless older women should be enough evidence to force our policy makers to provide women on parental leave superannuation payments at least at the minimum wage for the entire duration of their absence from work. Third and most controversially, superannuation income should be taxed. The fairest way to do this would be to apply the marginal tax rate of 37 cents in the dollar on superannuation income in excess of $87,001 per annum. Superannuation income up to $87,001 would be tax free in recognition of the tax already paid on the contribution and by the superannuation fund. Alternatively, the government could simply restore the tax superannuation earnings.

While Shorten's latest policy will need some tweaking, especially for part-pensioners and those just above the thresholds for accessing the age pension, it starts at the right place. We are in desperate need of well thought out policy proposals and a political system that can put the interests of the nation ahead of their partisan electoral interests. For the good of our nation we need to have proper discussion about the society we want and how best to pay for it. Catholic Social Services Australia has been a calling for a new accord between government, business and civil society to help us break through the policy impasse plaguing our political class. It is obviously needed sooner rather than later.