Funds 67

Funds

The superannuation and life insurance industries play an important part in the government's retirement income policy. The investment generated by contributions to funds provides Australian businesses with capital to create jobs, services and infrastructure. Increased long-term savings in funds providers reduce Australia's overseas borrowings and enables more control over the country's economic future.

The funds industry is highly regulated through numerous Acts and supervision by such bodies as the Australian Prudential Regulation Authority, the Australian Securities Industry Commission and the ATO.

Funds, like other taxpayers, are subject to self-assessment. Fund types include superannuation funds, approved deposit funds and pooled superannuation trusts. Retirement savings account providers also self-assess and are generally financial institutions that offer such accounts in addition to their other business activities.

Funds are run by trustees who act on behalf of the fund members. Trustees are authorised to deposit accumulated members' funds into a broad range of investments such as shares, property, government bonds and cash deposits. While trustees can use the services of professional fund managers, they remain fully responsible for the fund's operations and ensuring it follows government rules.

Within the ATO, funds can be clients of either the small business (SB) or large business and international (LB&I) lines. Funds with total investments of less than $50 million and/or taxable income less than $10 million are classified as small businesses and are clients of SB. Funds exceeding one or both of these criteria are classified as large businesses and are clients of LB&I.

The Insurance and Superannuation Segment, within the LB&I business line, has responsibility for all life and general insurance companies, reinsurers and friendly societies with a turnover of $10 million and all superannuation funds and pooled superannuation trusts with a total income of more than $10 million and/or total investments of more than $50 million. The segment also deals with health insurers and brokers. These clients are subject to specific tax legislation.

Definitions

Superannuation funds: usually trust funds established primarily to provide benefits to members or their dependants on retirement, resignation, death or disablement. Superannuation funds are usually governed by a trust deed and administered by trustees. Funds that comply with the *Superannuation Industry (Supervision) Act 1993* legislative requirements are eligible for taxation concessions and are said to be regulated.

Approved deposit funds: a type of rollover fund. These funds can only accept eligible termination payments. If a person retires early, is retrenched or changes jobs, their eligible termination payment can be rolled over into an approved deposit fund, where it will remain (attracting tax concessions on investment earnings) until that person reaches the age of 65.

Pooled superannuation trusts: trusts in which assets of a number of superannuation funds, approved deposit funds or other pooled superannuation trusts are invested and managed by a professional fund manager. These trusts can accept deposits only from regulated superannuation funds, approved deposit funds and other pooled superannuation trusts. The investment income of these trusts is taxed at concessional rates.

Retirement savings accounts: superannuation products that are provided by banks, building societies, credit unions, life insurance companies or prescribed financial institutions. These accounts provide superannuation without using a trust structure. They must be capital guaranteed, fully portable, owned and controlled by the member and subject to the retirement income standards applying to other superannuation products.

Life insurance companies: are companies registered under the *Life Insurance Act 1995*. Life insurance companies range from major institutions to smaller ventures. Their business consists of undertaking liability of life policies and fund policies, and related business (including the investment, management and administration of statutory fund assets). Generally, the taxable income of life companies is determined in the same way as for other companies, rather than on a statutory-fund basis. However, the superannuation business of life insurance companies is subject to special rules that put them on the same footing as superannuation funds.

Fund tax liability: a fund's likely tax determines its payment arrangements for a particular year. Likely tax is an estimate provided by the superannuation fund of the tax payable for the current year. If no estimate of likely tax is provided, then likely tax is the amount of tax payable in the most recent prior year for which a return has been lodged.

The ATO also has a superannuation line that is responsible for administering:

- the superannuation guarantee;
- reasonable benefit limits;
- the superannuation contribution surcharge;
- the superannuation holding accounts reserve system;
- the lost members register, and
- the regulation of self managed superannuation funds.

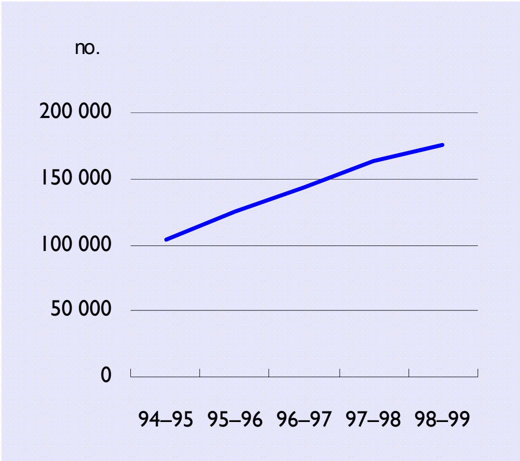
The statistics in this chapter are from income tax returns for the 1998–99 year that were processed before 12 September 2000.

The income year statistics contained in this publication differ from financial year figures published elsewhere. This is due to the timing of the tax payment system. Tax collections in a particular financial year include payments relating to various income tax years because funds differ in their balance dates and payment due dates. For example, tax payments for large funds that were June balancers for the 1998–99 income year were due on 1 March 1999, 1 June 1999, 1 September 1999 and 1 December 1999. Therefore, the first two instalments were paid during the 1998–99 financial year and the final two payments were made in the 1999–2000 financial year.

In June 1999, the Australian Prudential Regulation Authority reported that excluded funds held 13% of total superannuation assets, 27% of retail funds, 23% of public sector funds and 17% of corporate funds.

Amendments, announced in 1998, to the *Superannuation Industry (Supervision) Act 1993* (effective from 8 October 1999) reclassified most excluded funds as self-managed super funds. Under this reclassification, these funds are subject to regulation by the ATO. They are to lodge 1999–2000 returns, under the amended Act, and pay the supervisory levy to the ATO by the prescribed date.

Figure 8.1: Fund tax returns lodged



Client population

In 1998–99, there were a total of 175 672 fund returns lodged. This represented an increase of 8% since the previous year.

The most common type of funds in 1998–99 were excluded funds (funds with less than five members), which accounted for 91% of all funds.

Income

In 1998–99, funds reported a total income of $48.5 billion. This represented a 16% increase from the previous year. The significant increase in total income occurred because some entities changed their method of reporting income and

Table 8.1: Sources of income

Source of income	SB		LB&I		Total	
	$m	%	$m	%	$m	%
Employer contributions	5 135	52.1	14 042	36.3	19 178	39.5
Total capital gains	1 183	12.0	7 714	20.0	8 897	18.3
Gross dividends	764	7.8	2 907	7.5	3 671	7.6
Gross interest	734	7.5	2 217	5.7	2 952	6.1
Distribution from trusts	777	7.9	1 265	3.3	2 042	4.2
Employee contributions	485	4.9	1 041	2.7	1 526	3.1
Net foreign income	58	0.6	1 283	3.3	1 342	2.8
Gross rents	466	4.7	332	0.9	798	1.6
Other income[1]	244	2.5	7 850	20.3	8 094	16.7
Total	**9 848**	**100.0**	**38 651**	**100.0**	**48 499**	**100.0**

1. Includes net previous income, net non-arms length income and distributions from partnerships.

Table 8.2: Types of deductions

Deduction	SB		LB&I		Total	
	$m	%	$m	%	$m	%
Transfer of taxable contributions	190	12.1	4 554	24.9	4 744	23.9
Exempt current pension income	316	20.2	1 855	10.1	2 171	10.9
Total capital losses of current year applied	192	12.3	1 758	9.6	1 950	9.8
Net capital losses of prior years applied	39	2.5	153	0.8	191	1.0
Losses recouped	39	2.5	38	0.2	77	0.4
Depreciation deducted	10	0.6	30	0.2	40	0.2
Other deductions[1]	778	49.8	9 907	54.2	10 685	53.8
Total deductions	**1 564**	**100.0**	**18 295**	**100.0**	**19 859**	**100.0**

1. Includes interest expenses Australia; interest expenses overseas; total salary and wage expenses; special building write off; and exempt section 290A income.

deductions on their tax returns. If these entities had applied their old accounting methods total income would be very similar to the 1997–98 outcome.

Employer contributions continued to be the largest source of income for funds. In 1998–99, employer contributions totalled $19.2 billion, representing 40% of fund income. Capital gains accounted for an additional $8.9 billion or 18% of fund income.

For small business funds, employer contributions accounted for 52% of total income. This was followed by capital gains which accounted for 12%. For large business funds, employer contributions accounted for 36% and capital gains accounted for 20% of total income. This is partly because large business funds had a higher amount of total assets under management than small business funds.

Deductions

In 1998–99, funds claimed total deductions of $19.8 billion, an increase of 54% over the previous year. The majority of the increase is a result of some entities changing the way they report income and deductions on their tax returns. If these entities had applied their old accounting methods total deductions would be very similar to the 1997–98 outcome.

Nearly a quarter of these deductions ($4.7 billion) related to taxable contributions that had been transferred to pooled superannuation trusts, life assurance companies or registered organisations. A further 11% ($2.2 billion) related to exempt current pension income.

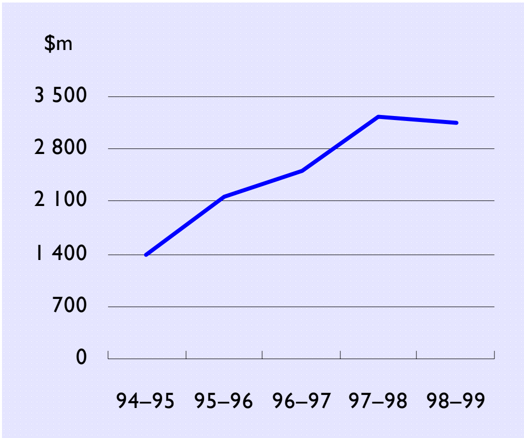
For large business funds, 25% of total deductions related to the transfer of taxable contributions. For small business funds, only 12% of deductions related to such transfers, while the largest proportion of deductions related to exempt current pension income (20%).

Net tax

In 1998–99, funds were liable for $3.2 billion in net tax. This was a decrease of 3% from the previous year. This was partly caused by the significant decrease in total capital gains in1998–99 from a relatively high level ($10.5 billion) in 1997–98. (Total capital gains were high in 1997–98 because a few funds went through restructuring and realised significant capital gains).

The majority of net tax (68%) was payable by large business funds, even though they accounted for just 0.3 % of all funds.

Figure 8.2: Net tax payable



While excluded funds accounted for the majority of funds (91%), they were liable for only 23% of net tax. Employer-sponsored or corporate funds, which accounted for 6% of all funds, were liable for 30% of net tax. A further 10% of net tax was payable by public sector funds, which accounted for less than 1% of all funds.

Table 8.3: Net tax by type of fund

Type of fund	SB		LB&I		Total	
	no.	$m	no.	$m	no.	$m
Excluded	159 750	703	35	18	159 785	721
Employer sponsored or corporate	9 879	231	233	724	10 112	955
Public offer or retail	348	28	165	379	513	408
Industry or award	247	18	55	543	302	560
Public sector fund	33	1	30	330	63	331
Non-regulated	1 370	3	8	14	1 378	17
Other	3 479	25	40	139	3 519	164
Total	**175 106**	**1 009**	**566**	**2 146**	**175 672**	**3 155**

Industry funds

Over the past year, there has been increasing attention regarding the role of industry funds. Industry funds were established to receive compulsory superannuation contributions that were set down in legislation or industrial awards. Industry funds are generally multi-employer funds that accept contributions from employers in a particular industry or range of industries.

The Australian Prudential Regulation Authority is responsible for regulating industry funds, ensuring that they adhere to the prudential requirements under the *Superannuation Industry (Supervision) Act 1993*. Industry funds are popular among employers and employees because they allow individuals who move among different jobs in the same industry to retain their superannuation contributions in one account.

In 1998–99, there were 302 industry or award funds. They represented assets under management of $29.5 billion, which represented 7% of total fund assets. While industry funds represented less than 1% of all funds they accounted for 11% of all memberships and are liable for 18% of net tax.

In 1998–99, total income for industry funds was $6.4 billion. The largest source of income for industry funds was employer contributions (62%), followed by total capital gains (15%). Total deductions by industry funds were $1.9 billion. The largest deduction claimed was for transfer of taxable contributions (42%).

The greatest proportion of industry funds (22%) was in the finance, insurance, real estate and business services industry. However, these funds only accounted for 4% of total industry fund membership. The industries with the largest membership were manufacturing (33%) followed by wholesale and retail trade (23%).

Life assurance companies

As of 30 June 1999, there were 45 registered life insurance companies in Australia. Total life insurance statutory fund assets for these companies were $166.3 billion. These assets

Table 8.4: Industry funds by broad industry[1]

Broad industry	Funds		Members	
	no.	%	no.	%
Finance, insurance, real estate & business services	67	22.2	231 713	4.3
Wholesale & retail trade	45	14.9	1 257 586	23.3
Building & construction	44	14.6	20 011	0.4
Manufacturing	38	12.6	1 789 917	33.2
Primary production	25	8.3	305 215	5.7
Entertainment, recreation, hotels, personal services & restaurants	20	6.6	625 012	11.6
Health, education, welfare & community services	28	9.3	862 398	16.0
Transport, storage & communications	26	8.6	215 451	4.0
Electricity, gas & water	4	1.3	39 023	0.7
Mining	2	0.7	31 845	0.6
Government	3	1.0	14 140	0.3
Total	**302**	**100.0**	**5 392 311**	**100.0**

1. Funds self classify their industry by selecting the industry in which most members are employed.

were backing $144.7 billion of Australian and overseas policy liabilities and bonuses. For the year, life insurance premiums totalled $37.2 billion. Investment-linked business accounted for $24.5 billion and the remaining $12.7 billion was non-investment linked business.

Total life insurance industry policy payments for the year ended 30 June 1999 were $32.5 billion, therefore total premiums received during the year exceeded total policy payments by $4.7 billion.

Detailed statistics for life insurance companies are not included in this chapter. The income and expenses reportable by life insurance companies on behalf of the superannuation fund business are included in their company tax return and detailed statistics are not recorded separately.

Return form compilation

Superannuation fund returns are lodged either electronically or in paper form. A copy of the form is in the appendix. Statistics for most of the items shown on the return form are included in the tables on the CD-ROM attached to this publication.

Superannuation fund rates

Superannuation funds and approved deposit funds	
Complying superannuation funds	
Assessed on income, including realised capital gains and taxable contributions	Rate: 15%
Assessed on non-arms length income and private company dividends	Rate: 47%
Non-complying superannuation funds	
Assessed on income, including realised capital gains and taxable contributions	Rate: 47%
Complying ADFs	
Assessed on income, including realised capital gains and taxable contributions	Rate: 15%
Assessed on non-arm's length income and private company dividends	Rate: 47%
Non-complying ADFs	
Assessed on income, including realised capital gains and taxable contributions	Rate: 47%
Pooled superannuation trusts	
Assessed on income, including realised capital gains and any taxable contributions transferred from investing funds	Rate: 15%
Assessed on non-arm's length income and private company dividends	Rate: 47%

Tax reform and funds

As part of the new business tax system, there will be changes to the taxation of life insurance companies. These changes broaden the taxation base of life insurers, which will enhance competitive neutrality with other entities.

Amendments were made to the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997* to ensure that life insurance companies are taxed on all the profit made from their different activities, and are taxed in broadly the same way as activities in other entities with similar economic substance. For example:

- risk business will be taxed on broadly the same basis as for general insurers;
- investment business will be taxed on broadly the same basis as for other investment entities (other than collective investment vehicles); and
- complying superannuation business held in a virtual pooled superannuation trust will be taxed on broadly the same basis as for pooled superannuation trusts.

The assets relating to the complying superannuation business will be segregated and held in a virtual pooled superannuation trust. Ordinary income and statutory income generated on those assets will be taxed at a rate of 15%.

Income derived from immediate annuity and other exempt superannuation business will be exempt from tax if the assets relating to that business are segregated. This will apply only for assets necessary to fund that business.

The remaining business of life companies will be taxed at the company tax rate.

Other amendments affect those dividend imputation provisions, in the 1936 Act, that affect life insurance companies. These measures generally apply from 1 July 2000.

Detailed tables

The following detailed tables on funds can be found on the CD-ROM attached to this publication.

Table 1: Selected items by grade of net tax

Table 2: Selected items by industry