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Friendly Societies of Australia

12 June 2018

Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600
By email: economics.sen@aph.gov.au

Dear Chair, Deputy Chair and other members of the committee

On behalf of the friendly societies industry, the Friendly Societies of Australia (FSA) is writing to inform the committee of our industry's view on a measure in the 2018/19 Federal Budget which relates to the new low and middle-income tax offset. Please accept the following as our submission to the current committee inquiry into the Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018 [Provisions].

While we welcome tax cuts for low and middle-income earners, if legislation to give effect to the low and middle-income tax offset passes Parliament in its current form, this will discourage Australians from contributing their savings towards the cost of school education, tertiary education and vocational training (including apprenticeships) through scholarship funds.

For your reference, the FSA (www.friendlysocieties.org.au) is the industry association representing Australia's friendly societies regulated by the Australian Prudential Regulation Authority, the majority of which are member-owned mutual organisations. Friendly societies in Australia provide financial services to more than 800,000 members. Collectively, our industry manages approximately $7 billion in funds and annually, more than $675 million in benefits are paid out by friendly societies. Our members offer financial products for life events, including investment bonds, scholarship plans for school education, higher education and training, funeral bonds and risk insurance.

The Budget measure in question would deny minors access to the low and middle-income tax offset. This would have a compounding effect on past legislation and have direct negative consequences for scholarship plans offered by friendly societies. These plans help Australian families to fund education and training for their children and grandchildren. The Budget measure would mean that children and grandchildren who receive benefits from such scholarship plans will be taxed at rates as high as 66 per cent.

In 2011, the Gillard Government changed the low-income tax offset so that funds paid out of a scholarship plan to a child went from being tax-free to being taxed at 66 per cent for pay-outs of between $416 and $1307 and 45 per cent for pay-outs above $1307. This has proven to be a significant disincentive for families considering investing in scholarship plans. For every family who might have been thinking about putting away money for their children or grandchildren in a scholarship plan but has been turned off by the high tax rates on minors, there is an extra burden on government to fund education and training – though these families value education and would be happy to contribute.

At a time when the focus on government spending on education has never been sharper, we believe that changes to the taxation system should take into account the importance of encouraging families to contribute to the cost of educating children and grandchildren, not rely more heavily on the public purse, as this latest Budget measure does.

Friendly societies have long advocated for scholarship plans to help fund education and training in the same way as superannuation funds retirement for Australians. It is also significant that friendly societies differ from other financial institutions because the customers of friendly societies are their owners, meaning friendly societies directly benefit local communities. Friendly societies operate under a unique "benefit fund" structure, where contributors to each separate benefit fund receive specified returns from the investments in that benefit fund and any surpluses are allocated between members of that benefit fund.

Taking all this into consideration, the FSA submits that, as was the case before 2011, children should be able to receive tax-free payouts from friendly societies scholarship funds, which would encourage parents and grandparents to save for and contribute to their family's education needs and reduce pressure on the federal education budget.

Any suggestion this would promote income-splitting to avoid tax is untrue, given that existing laws governing what items can be paid for by earnings from scholarship plans are very clear – they can only be used for genuine education expenses.

Should it be necessary from a budgetary perspective, the friendly societies industry is supportive of there being a cap on the tax-free component of amounts paid to children from scholarship plans of $3,333. Pay-outs to children above this amount should continue to be taxed at 45 per cent.

Thank you for your consideration of this important issue for the friendly societies industry.

Yours sincerely

Mandy Cooper

Vice President