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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

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TAX LAWS AMENDMENT (SUPERANNUATION CONTRIBUTIONS  
SPLITTING) BILL 2005

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EXPLANATORY MEMORANDUM

(Circulated by authority of the  
Treasurer, the Hon Peter Costello MP)



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# **Glossary**

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The following abbreviations and acronyms are used throughout this explanatory memorandum.

<i>Abbreviation</i>	<i>Definition</i>
Commissioner	Commissioner of Taxation
ETP	eligible termination payment
ITAA 1936	<i>Income Tax Assessment Act 1936</i>



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# **General outline and financial impact**

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## **Splitting of superannuation contributions**

The Tax Laws Amendment (Superannuation Contributions Splitting) Bill 2005 amends the *Income Tax Assessment Act 1936* (ITAA 1936).

The amendments provide for the tax consequences of the Government's election commitment to allow members to split their superannuation contributions with their spouse.

The splitting of superannuation contributions will assist families to maximise the benefits available in superannuation and provide an avenue for spouses to share in superannuation benefits. It will be of particular benefit to low income or non-working spouses by allowing them to have superannuation assets under their own control and have their own income in retirement.

It will provide single income couples with access to two eligible termination payment (ETP) low-rate thresholds and two reasonable benefit limits in a similar way to dual-income families.

The Government has selected a voluntary, 'annual split' model for the splitting of contributions. That is, after the end of the financial year members of participating superannuation entities could request that contributions made in the previous year be split with their spouse.

The exact details of how this will operate will be specified in amendments to the *Superannuation Industry (Supervision) Regulations 1994*, *Retirement Savings Account Regulations 1997* and *Income Tax Regulations 1936*. Where a split of contributions is made in accordance with those regulations then the tax consequences will be as set out in this Bill. The basic principle of the taxation treatment of contributions splitting will be:

- contributions in respect of a member (the splitting spouse) that are split in favour of their spouse (the receiving spouse) will be paid to another fund or transferred to an account within the existing fund for the receiving spouse. This payment or transfer will be considered to be an ETP roll-over for the receiving spouse.

**Date of effect:** The amendments will apply from Royal Assent, but will not take practical effect until regulations are made specifying the detail of how and from when the contributions-splitting regime will operate. These regulations are expected to provide that contributions made on or after 1 January 2006 will be able to be split.

**Proposal announced:** This measure was originally announced in the Government's policy statement *A Better Superannuation System* on 5 November 2001. The Government subsequently recommitted to this policy in its policy statement *Super for All and Understanding Money* on 6 October 2004.

**Financial impact:** This measure will have a cost to revenue as follows:

<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>
Nil	-\$1.2 million	-\$4.0 million	-\$4.7 million

**Compliance cost impact:** Superannuation providers may incur additional administrative costs in providing their members with the ability to split superannuation contributions.

## **Summary of regulation impact statement**

### **Regulation impact on business**

**Impact:** This measure will assist families to maximise the benefits available in superannuation and provide an avenue for spouses to share superannuation benefits. This is particularly important for families with one spouse working in the home or receiving a low income.

There is no impact on employers, and employers' superannuation guarantee obligations will not change as a result of this measure.

However, superannuation providers may incur administration and system development costs, where they decide to offer splitting.

***Main points:***

- Members of eligible funds will be able to split both personal and employer contributions with their spouse, including compulsory superannuation guarantee contributions.
- For participating members, contributions made on behalf of one spouse (the splitting spouse) would be transferred to a separate interest in the fund or to another superannuation provider for the benefit of the other spouse (the receiving spouse). Existing superannuation benefits will not be eligible for splitting.



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# Chapter 1

## Splitting of superannuation contributions

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### Outline of chapter

1.1 Schedule 1 to this Bill amends the *Income Tax Assessment Act 1936* (ITAA 1936) to provide for the taxation consequences of the Government's election commitment to allow members of accumulation funds to split their superannuation contributions with their spouse. The amendments will provide:

- for a new payment called a 'contributions-splitting eligible termination payment' (ETP) which will arise when a member's contributions are split in accordance with regulations. Amendments to the *Superannuation Industry (Supervision) Regulations 1994*, the *Retirement Savings Account Regulations 1997* and the *Income Tax Regulations 1936* will provide the framework for the operation of contributions splitting. The amended regulations will also work in conjunction with this Bill to define under what circumstances an amount paid or transferred to an account is to be considered to be a contributions splitting ETP. Broadly it is intended that the regulations will provide that if a member (the splitting spouse) requests that part of their contributions be split in favour of their spouse (the receiving spouse) and the split is in accordance with any rules on contributions splitting specified in the regulations then the payment or transfer to give effect to the split will be considered to be a contributions-splitting ETP;
- that a contributions-splitting ETP is a qualifying ETP;
- that the payment or transfer of an amount that meets the definition of a 'contributions-splitting ETP' is to be considered to be an ETP roll-over;
- for the deeming of a zero day eligible service period where a contributions-splitting ETP is paid or transferred;

- for the Commissioner of Taxation (Commissioner) to have the ability to collect information regarding contributions-splitting ETPs to assist in the administration of the measure, if necessary; and
- that a notice of intention to claim a deduction for eligible superannuation contributions cannot be made to a superannuation fund if a contributions-splitting application has been made in respect of those contributions and has not been rejected. In effect this means that a notice of an intention to claim a deduction must be made before a splitting request.

## **Context of amendments**

1.2 Superannuation has traditionally been seen as a means to encourage savings for the purposes of replacing employment income following retirement. Therefore, historically, superannuation contributions have generally only been allowed in respect of individuals in the workforce.

1.3 The Government's proposal to allow splitting of superannuation contributions will further build on the Government's achievements in increasing the accessibility of superannuation. In particular, the ability to split employer superannuation contributions will assist couples that cannot afford to make voluntary contributions. It will also assist spouses that stay home to care for a family to accumulate their own superannuation. This measure is expected to benefit women in particular.

1.4 Superannuation contributions splitting will provide:

- low income or non-working spouses with their own superannuation assets under their own control and their own income in retirement; and
- single income couples with better access to two ETP low-rate thresholds and two reasonable benefit limits in a similar way to dual income families.

1.5 The exact details of how the contribution-splitting regime will operate will be specified in regulations.

## Summary of new law

1.6 Schedule 1 ensures that amounts paid or transferred as a contributions-splitting ETP to a superannuation account belonging to a fund member's spouse are treated as a roll-over and therefore are not taxed as contributions upon receipt in the receiving spouse's account.

1.7 The Schedule also allows regulations to be made to specify information that must be provided to the Commissioner where a contributions-splitting ETP is made. This will allow information on contributions-splitting ETPs to be collected by the Commissioner, if necessary.

1.8 Finally, the Schedule prevents a notice of intention to claim a tax deduction for eligible superannuation contributions from being lodged with a superannuation fund if a contributions-splitting application has been made. In effect this means that a notice of an intention to claim a deduction must be made before a splitting request. However, in the event that a contributions-splitting application was made and subsequently rejected, a notice of intention to claim a deduction can still be lodged.

## Comparison of key features of new law and current law

<i>New law</i>	<i>Current law</i>
<p>Eligible members will be able, in circumstances to be specified in regulations, to split both personal and employer superannuation contributions with their spouse, including compulsory superannuation guarantee contributions.</p> <p>This Bill provides for the taxation consequences of such a split occurring.</p> <p>In particular a contributions split in favour of a spouse will be treated as an ETP roll-over for that spouse. The eligible service period attaching to that ETP will be zero days.</p> <p>The Commissioner will have the ability to collect information regarding contributions-splitting</p>	<p>Members are unable to split personal or employer superannuation contributions with their spouse, including compulsory superannuation guarantee contributions.</p>

<i>New law</i>	<i>Current law</i>
ETPs. Amendments to the provisions regarding deductions for superannuation contributions by eligible persons will prevent the lodging of a notice of intent to claim a deduction where a contributions-splitting application has been lodged and not rejected. In effect this means that a notice of an intention to claim a deduction must be made before a splitting request.	

## **Detailed explanation of new law**

### **Amounts that are moved to a spouse under contributions splitting will be ETP roll-overs**

1.9 Item 1 of Schedule 1 inserts a definition of a **contributions-splitting ETP** into the ITAA 1936. The term is defined as an amount paid to a superannuation fund, a life assurance company (for the purposes of paying into a ‘deferred annuity’) or approved deposit fund, or transferred within a superannuation fund for the benefit of the taxpayer (in this case the spouse of the member whose contributions are being split) where the payment or transfer occurs in accordance with the relevant regulations. *[Schedule 1, item 1]*

1.10 Item 2 of Schedule 1 makes a technical drafting amendment to improve the wording of the ETP definition. *[Schedule 1, item 2]*

1.11 The definition of ‘eligible service period’ in subsection 27A(1) is amended to provide that the ETP of a contributions-splitting ETP is deemed to be zero days. Consequently this provision makes it clear that a contributions-splitting ETP will never have any pre-July 1983 component. *[Schedule 1, item 3]*

1.12 Items 4 to 7 of Schedule 1 make technical drafting amendments to improve the wording of the ETP definition. *[Schedule 1, items 4 to 7]*

1.13 Paragraph (b) of the definition of an ETP in subsection 27A(1) is amended to make it clear that a contributions-splitting ETP will not be considered an ETP under this paragraph. Rather, a contributions-splitting

ETP will be an ETP by virtue of new paragraph (bb). *[Schedule 1, items 8 and 9]*

1.14 Items 10 to 14 of Schedule 1 make technical drafting amendments to improve the wording of the ETP definition. *[Schedule 1, items 10 to 14]*

1.15 An amendment is made to subsection 27A(12) to make it clear that a contributions-splitting ETP will always be a qualifying ETP. *[Schedule 1, item 15]*

1.16 Classifying the contribution-splitting ETP as a qualifying ETP will facilitate the rolling over of the ETP. Taxpayers can only elect to roll-over qualifying ETPs.

### **Taxation components of a contributions-splitting ETP**

1.17 The relevant concessional tax rate for an ETP depends on whether or not the ETP was paid from a taxed source or an untaxed source. Generally a payment from a taxed superannuation fund will contain a taxed element. Therefore the table in subsection 27AB(1) is amended to include an amount that is a contributions-splitting ETP as having a taxed element to the extent that it is paid from a taxed superannuation fund. *[Schedule 1, item 16]*

1.18 An amendment is made to the ETP roll-over provisions in section 27D. This allows for regulations to be made to specify that a contributions-splitting ETP will be considered a roll-over and to require other details (such as the taxation components of the contributions-splitting ETP) relevant to that roll-over to be prescribed. *[Schedule 1, item 17]*

### **Reporting to the Commissioner**

1.19 An entity which makes a contributions-splitting ETP must provide the Commissioner with a statement setting out details of the payment, if required by the regulations. *[Schedule 1, item 18]*

### **Notices required to claim a taxation deduction not able to be given for contributions that have been split**

1.20 Subsection 82AAS(1) is amended to include a reference to the definition of a contributions-splitting ETP as contained in subsection 27A(1) of the ITAA 1936. *[Schedule 1, item 19]*

1.21 A new paragraph is inserted into subsections 82AAT(1B) and (1CC) to ensure that notices of intention to claim a deduction for superannuation contributions by eligible persons can not be lodged in respect of contributions which are already the subject of a contributions-splitting application. This avoids administrative complexity and prevents a claim for a tax deduction where the contributions in question have already been paid, transferred or allotted to a superannuation account of the spouse of the fund member. *[Schedule 1, items 20 and 22]*

1.22 The effect of items 20 and 22 is that if the taxpayer (the splitting spouse) wishes to both claim a tax deduction under section 82AAT and split some or all of a year's contributions with their spouse, then they must first lodge the necessary notice to claim the deduction before requesting that the contributions be split.

1.23 Items 21 and 23 provide that the definition of ***contributions-splitting application***, as used in items 20 and 22, means an application designated as a contributions-splitting application in the regulations. *[Schedule 1, items 21 and 23]*

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# Chapter 2

## Regulation impact statement

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### Policy objective

2.1 The objective of this measure is to broaden the accessibility of superannuation to individuals who are outside the paid workforce. This measure is expected to benefit women in particular. Specifically this measure will:

- provide low income spouses with their own superannuation assets in their own name and under their own control; and
- give single income families access to two eligible termination payment (ETP) tax-free thresholds and two reasonable benefit limits.

### Implementation options

2.2 Given the Government's election commitment that the administrative burden will not fall on employers, this regulation impact statement does not examine options that involve splitting of superannuation contributions by the employer.

2.3 Four principal ways of implementing the Government's superannuation contributions-splitting proposal have been identified:

- *Prospective split* — at the request of a member, the member's superannuation provider would be required to split each future superannuation contribution received on behalf of the member.
- *Annual split* — after the end of the financial year and at the request of a member, the member's superannuation provider would be required to split contributions received during the previous year.

- *Joint accounts* — couples could open a joint superannuation account or retirement savings account and each spouse would hold a 50 per cent interest in contributions and investment returns credited to the account.
- *Benefits split* — members could split benefits accrued after commencement at any time, including following retirement.

## **Costs and benefits**

2.4 The following paragraphs describe each of the four options including their impact on stakeholders. References to superannuation providers include both superannuation funds and retirement savings account providers.

### **Option 1: prospective split**

2.5 A prospective split would involve members notifying their superannuation provider of an intention to split each future contribution received by the provider. The superannuation provider would then split each contribution received on behalf of that member.

#### ***Impact assessment — benefits***

##### *Members and their spouses*

2.6 Couples gain the tax advantages and other benefits that flow from splitting superannuation contributions, including:

- providing the low income or non-working spouse with their own superannuation assets under their own control (thereby allowing them to take an interest in their retirement savings by, for example, choosing their own superannuation fund or investment strategy) and their own income in retirement; and
- access to two ETP low-rate thresholds and two reasonable benefit limits.

##### *Superannuation providers*

2.7 The ability to split superannuation contributions may encourage new or increased contributions, hence potentially increasing funds under management.

*Employers*

2.8 This option does not impose additional requirements on employers in making superannuation contributions.

*Government*

2.9 This option furthers the Government's superannuation and retirement policy objectives.

**Impact assessment — costs**

*Members and their spouses*

2.10 As couples would require at least two superannuation accounts under this option, couples may incur separate account management fees on each account (while these vary significantly, a typical amount might be around \$150 per annum, excluding investment management fees. Note however, some funds specify fees as a dollar amount while others specify a percentage of assets, so fees could be higher or lower). However, in many cases, the receiving spouse would already have an existing superannuation account into which the split contributions could be made. The splitting spouse may also be levied with service fees by the provider affecting the split.

2.11 The splitting spouse would need to provide their superannuation provider with details of their spouse's superannuation account.

*Superannuation providers*

2.12 This option would impose administration and systems development costs on superannuation providers, especially where the receiving spouse's account is with a different provider or if the member is in receipt of frequent contributions (eg, fortnightly). These costs may be significant, although they have not been able to be quantified. Superannuation providers would not be forced to offer contributions splitting and hence could avoid these costs if they choose not to offer contribution splitting.

2.13 Under a regime of quarterly superannuation guarantee contributions, there would be at least four contributions per annum and therefore at least four times of the year when contributions would be split for participating members.

2.14 Superannuation providers may also need to take steps to establish that the spouse is bona fide and check account details.

*Employers*

2.15 This option does not impose additional requirements on employers in making superannuation contributions.

*Government*

2.16 This option is of a similar cost to Option 2 over the forward estimates period, though its prospective nature involves a small *bring forward* of the revenue impact. As such, its actual cost over the forward estimates period is marginally higher than that of Option 2, and broadly in line with the costs of Option 3.

**Option 2: annual split**

2.17 Following the end of the financial year and at the request of a member, a superannuation provider would split contributions received during the previous year. This option simplifies Option 1 by requiring superannuation providers to effect a split only once per year and by allowing members to notify their provider of their intention to split contributions after the relevant contributions have been made.

***Impact assessment — benefits***

*Members and their spouses*

2.18 Couples gain the tax advantages and other benefits that flow from splitting superannuation contributions, including:

- providing the low income or non-working spouse with their own superannuation assets under their own control (thereby allowing them to take an interest in their retirement savings by, for example, choosing their own superannuation fund or investment strategy) and their own income in retirement; and
- access to two ETP low-rate thresholds and two reasonable benefit limits.

*Superannuation providers*

2.19 The ability to split superannuation contributions may encourage new or increased contributions, hence potentially increasing funds under management.

*Employers*

2.20 This option does not impose additional requirements on employers in making superannuation contributions.

*Government*

2.21 This option furthers the Government's superannuation and retirement policy objectives.

***Impact assessment — costs***

*Members and their spouses*

2.22 As couples would require at least two superannuation accounts under this option, couples may incur separate account management fees on each account (while these vary significantly, a typical amount might be around \$150 per annum, excluding investment management fees. Note however, some funds specify fees as a dollar amount while other's specify a percentage of assets, so fees could be higher or lower). However, in many cases, the receiving spouse would already have an existing superannuation account into which the split contributions could be made. The splitting spouse may also be levied with service fees by the provider affecting the split. The cost may be lower if the receiving spouse's account were in the same fund.

2.23 However, the ongoing administration costs incurred by superannuation providers are expected to be lower under this option than under Option 1, and hence the fees paid by splitting members are also expected to be lower.

*Superannuation providers*

2.24 This option would impose administration and system development costs on superannuation providers. These costs have not been able to be quantified. However, because providers would affect a split only once per year, costs are expected to be lower under this option than under Option 1. Superannuation providers would not be forced to offer

contributions splitting and hence could avoid these costs if they choose not to offer contribution splitting.

2.25 Superannuation providers may also need to take steps to establish that the spouse is bona fide and check account details.

*Employers*

2.26 This option does not impose additional requirements on employers in making superannuation contributions.

*Government*

2.27 This option has an estimated cost to taxation revenue of \$9.9 million from commencement to 30 June 2009.

**Option 3: joint accounts**

2.28 A member who wished to split superannuation contributions would open a new account, with their existing superannuation provider, to be held jointly in their own and their spouse's names. At the request of the splitting spouse, the superannuation provider would deposit all (or part) of the splitting spouse's contributions into this account.

2.29 Each spouse would hold a 50 per cent interest over contributions and investment returns credited to the account. Each spouse could transfer their accumulated share of the benefit from the joint account to an account in their name. Alternatively, payment of a superannuation benefit could be made directly to the relevant spouse, providing that spouse had satisfied a condition of release.

***Impact assessment — benefits***

*Members and their spouses*

2.30 Couples gain the tax advantages and other benefits that flow from splitting superannuation contributions, including:

- providing the low income or non-working spouse with their own superannuation assets and their own income in retirement; and
- access to two ETP low-rate thresholds and two reasonable benefit limits.

*Superannuation providers*

2.31 The ability to split superannuation contributions may encourage new or increased contributions, hence potentially increasing funds under management.

*Employers*

2.32 This option does not impose additional requirements on employers in making superannuation contributions.

*Government*

2.33 This option furthers the Government's superannuation and retirement policy objectives.

***Impact assessment — costs***

*Members and their spouses*

2.34 Couples would be required to open a new account under this option. If each spouse already had their own superannuation account then couples may maintain three accounts between them — one in the name of each spouse, and the joint account.

2.35 Maintaining an additional superannuation account and paying an extra set of account-keeping fees is expected to reduce the retirement income benefits of splitting, particularly for low income couples.

2.36 Furthermore, owing to joint control of the accounts, the low income or non-working spouse may have reduced control over their superannuation assets relative to Options 1 and 2.

*Superannuation providers*

2.37 This option would impose significant system development costs on providers. The systems development costs are expected to be significantly higher than the other options, as the superannuation system is currently built on the basis of the individual being the unit, rather than a couple. The costs to providers associated with this option have not been able to be quantified. Superannuation providers would not be forced to offer contributions splitting and hence could avoid these costs if they choose not to offer contribution splitting.

2.38 However, because providers would not be required to split regular contributions, ongoing costs for those providers who offer splitting may be lower than under Options 1 and 2.

2.39 Superannuation providers may levy a fee at the time of the split to recoup administration costs incurred by the provider.

2.40 Superannuation providers may also need to take steps to establish that the spouse is bona fide.

#### *Employers*

2.41 This option does not impose additional requirements on employers in making superannuation contributions.

#### *Government*

2.42 This option would result in complex changes to the tax and superannuation legislation and regulations.

2.43 This option is of a similar cost to Option 2 over the forward estimates period, though its prospective nature involves a small *bring forward* of the revenue impact. As such, its actual cost over the forward estimates period is marginally higher than that of Option 2, and broadly in line with the costs of Option 1.

### **Option 4: benefit splitting**

2.44 Under this option members would be able to split benefits accrued after commencement of the measure at any time, including at retirement. To reduce the administrative burden on providers (and eliminate the need for providers to track contributions and earnings accrued after commencement of the measure), a simplified calculation of benefits eligible for splitting could be used. In principle, eligible splitting benefits could be the total benefit multiplied by the proportion of time spent in employment after commencement of the measure, relative to total time in employment (a member's eligible service period could be used for this purpose).

2.45 If the receiving spouse was aged less than 65 and had not satisfied a condition of release at the time of retirement of the splitting spouse, the receiving spouse's benefit would be rolled into their own account and preserved until they retire.

***Impact assessment — benefits***

*Members and their spouses*

2.46 Couples gain the tax advantages and other benefits that flow from splitting superannuation contributions, including:

- providing the low income or non-working spouse with their own income in retirement; and
- access to two ETP low-rate thresholds and two reasonable benefit limits.

2.47 The ability to split eligible superannuation contributions at any time would encourage spouses to split after retirement when the splitting spouse could calculate the precise amount of superannuation to transfer to the receiving spouse to minimise the couple's combined tax liability.

2.48 By splitting after retirement, couples could avoid the need to open a superannuation account in the name of the receiving spouse.

*Superannuation providers*

2.49 The implementation costs of this option are smaller than Options 1, 2 and 3.

*Employers*

2.50 This option does not impose additional requirements on employers in making superannuation contributions.

*Government*

2.51 This option does not meet all of the Government's superannuation and retirement policy objectives associated with this measure.

***Impact assessment — costs***

*Members and their spouses*

2.52 This option provides reduced economic independence to the receiving spouse. The receiving spouse would not have superannuation assets under their direct control during the accumulation phase potentially missing out on cost-effective death and disability insurance. Furthermore, the receiving spouse may not have access to their benefit until after their spouse retired.

2.53 The splitting spouse may be levied with service fees by their provider at the time of the split.

*Superannuation providers*

2.54 This option would impose systems development and administration costs on superannuation providers. As providers would be splitting benefits rather than contributions, the systems development costs would likely be the lowest of all the options, although they have not been able to be quantified. Providers already have the operational means to split superannuation benefits reflecting recent amendments to the *Family Law Act 1975*. Superannuation providers would not be forced to offer splitting and hence could avoid these costs if they choose not to offer splitting.

2.55 It is expected that providers would only split balances once, probably following the retirement of the splitting spouse.

2.56 Providers may levy a fee at the time of the split to recoup administration costs incurred by the fund.

2.57 Superannuation providers may also need to take steps to establish that the spouse is bona fide.

*Employers*

2.58 This option does not impose additional requirements on employers in making superannuation contributions.

*Government*

2.59 This option does not meet the Government's objective of providing non-working spouses with superannuation assets under their control.

2.60 This option broadens the scope of the Government's policy announcement and focuses more narrowly on facilitating the ability of fund members to minimise their combined tax liability. Accordingly, the cost to revenue of this option would be significantly higher than for Options 1, 2 and 3.

2.61 In the long-term, the cost to revenue reflects the ETP tax benefits of splitting as well as lower income taxation in retirement. The increasing proportion of benefits that can be split over time is an important factor increasing long-term costs well in excess of those incurred under the other options.

## **Consultation**

2.62 The Government has conducted a range of consultation activities in relation to this policy. In July 2002 the Government issued a consultation paper for public comment, which outlined the policy proposal in detail, including the first three options included in this paper. The Government subsequently consulted on a draft Bill and on two sets of draft regulations.

2.63 Many key industry stakeholders participated in the consultation process, including the Association of Superannuation Funds of Australia, the Investment and Financial Services Association, CPA Australia, the Financial Planning Association, the Institute of Chartered Accountants in Australia and the Institute of Actuaries of Australia. Submissions were also received from numerous other entities and individuals.

2.64 The inclusion of Option 4 in the preceding regulation impact statement reflects the desire of some parts of industry to pursue benefits splitting rather than contributions splitting.

2.65 Mixed views were presented by those who responded to the Government's consultation paper on which of Options 1 or 2 would impose the smaller costs on funds, although Option 2 was more likely to be favoured than Option 1. Of these two options, superannuation providers in favour of Option 1 were possibly the more highly automated providers while providers that preferred batch processing were more likely to favour Option 2. There was very little support for Option 3 (joint accounts) and a general view that it raised some complex legal issues.

## **Recommendation and reasons**

2.66 Options 1 and 2 best meet the Government's policy objectives. However, these options do impose costs on funds. Option 2 is expected to impose smaller costs on superannuation providers who choose to offer contributions splitting than Option 1, and therefore is the preferred option.

2.67 Option 3 is the least preferred option (of those that meet the Government's objectives). Option 3 would require fundamental change to the superannuation system, imposing costs on superannuation providers and the Government, and provide the lowest benefit to couples, because couples may be required to maintain three accounts.

2.68 Option 4 does not fully meet the Government's objectives and comes at a higher cost to Government revenue. While Option 4 maximises

the tax benefit for couples, it does not provide the receiving spouse with their own superannuation during the accumulation phase and the broader benefits that can bring.

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## **Schedule 1: Superannuation contributions splitting**

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