

Superannuation is a goldmine for global tax-dodgers

In a 25 February 2021 parliamentary speech, Liberal Senator Gerard Rennick observed that Australia's retirement "safety net" was anything but: "Pick your super fund and, if your super fund does a good job, you might get your money back, but, if it does a bad job, you don't get your money back". Australians who entrust their retirement savings to a super fund cannot expect any protection from the superannuation regulator, the Australian Prudential Regulation Authority (APRA). Despite the fact that APRA acknowledges there is a high risk of conflicts of interest in the sector, a 2018-19 inquiry by the Productivity Commission found the regulator was focused on the interests of superannuation funds themselves, rather than the needs and interests of members.¹

Treasury's 2019-20 Retirement Income Review final report was published on 20 November 2020, and according to the 8 December 2020 *Australian Financial Review*, exposed the "exorbitant cost" and "terrible inequities" of the superannuation system. The *AFR* observed that super was supposed to be a "vehicle for national savings", but "Australia's piggy bank has a \$70 billion leak"—the \$40 billion a year of public revenue lost through tax concessions (which overwhelmingly favour the wealthy) and \$30 billion racked up in fees. Notably, the aged pension costs taxpayers much less than the "leak", at \$46 billion a year (2019). The Retirement Income Review found Australia's wealthiest self-managed super funds held a collective \$90 billion, and received tax concessions which were "not required for retirement income purposes" but were instead a "tax minimisation strategy". The cost of superannuation tax concessions alone will surpass the cost of the age pension by 2040.

In addition to facilitating the loss of domestic tax revenue, the Australian super industry is part of a multinational tax-dodging rort.

In a 16 June 2021 parliamentary speech, Senator Rennick, who spent twenty-five years in the domestic and international financial sector prior to entering parliament and has a master's degree in Taxation Law, exposed the global pension industry's tax-dodging. Rennick declared that "there's a bit of a deal going around with all of the investment funds in the world that, if you invest in another country, you don't have to pay tax". This is a reference to Australia's foreign resident capital gains tax regime in the *Income Tax Assessment Act 1997*. The Act exempts a foreigner from paying capital gains tax if the investments are non-real assets and the ownership is less than 10 per cent of the asset. The Act's explanatory memorandum claims this is "[c]onsistent with international practise and Australia's international tax treaties", which Rennick explained more bluntly: "We have foreign funds investing here and our funds invest offshore. They all give each other tax breaks, and basically there's base erosion and profit shifting, where all the wealthy fund managers make all the money and pay themselves bonuses because they don't have to pay tax."

Offshore tax havens

As if the capital gains tax breaks weren't enough, international pension funds have engaged in wide-scale tax dodging. As reported in the 8 May 2019 *AFR*, Australian superannuation giants have invested in foreign infrastructure assets which were held in a trust in the Cayman Islands, a notorious tax haven. In 2017, the pension fund of British parliamentarians was reported to have £6.6 million invested in an offshore trust in the tax haven of Jersey. Canada's CBC reported on 19 December 2017 that the Paradise Papers leak had revealed seven of Canada's so-called "Big Eight" pension funds used tax havens and shell companies to aggressively avoid paying foreign taxes, including on their investments in large foreign infrastructure projects.

Pension industry's 'international shopping spree'

According to APRA, the Australian superannuation industry collectively managed \$3.1 trillion at the end of the March 2021 quarter. The goldmine of compulsory superannuation payments, raking in over \$120 billion every quarter, is increasingly heading offshore—the 28 August 2019 *AFR* reported that nearly three-quarters of superannuation funds, which already had 41 per cent of their assets overseas, intended to increase their offshore investments over the next two years.

PSP Investments, a Canadian pension giant which has been accused of offshore tax avoidance, has over \$2 billion invested in Australia, which is heavily focused on Australian agriculture and natural resources. A 2020 acquisition made PSP one of the largest private owners of Murray-Darling Basin water rights.² As reported by *Michael West Media* on 1 August 2021, structural imbalances in Australia's water market mean the next drought will be a "nightmare for farmers" but dazzlingly lucrative for water speculators. The Citizens Party has reported that Canadian pension funds are leading the charge for predatory corporate takeovers in Australia, which was "the target of a record \$34 billion in acquisitions" by Canadian investors in 2015. ([AAS, 16 Sept. 2020.](#)) To get around the rule that the funds will lose their tax-exempt status if they borrow money to invest, in 2018 Canada's largest pension funds began using 'regulatory arbitrage' to raise money by offering their own bonds.

The 23 June 2021 *Financial Times* reported global institutional investors seeking to counteract the "gloomier outlook" for future returns in fixed income and equities were pivoting to copy the Canadian pension funds' decade-long strategy of leveraging public money to acquire private assets. After a few

years of consolidations, Australia now has several mega superannuation funds which collectively manage more than \$2 trillion, and according to the *FT*, now “have the heft to copy pioneering Canadian pension plans and go on an international shopping spree”.

These super funds are following in the footsteps of Macquarie Bank, which the Citizens Party warned in 2011 was making a fortune out of compulsory super, “going all over the world buying and building private infrastructure with public assistance that the public would pay to use—and generating big profits for its investors”.³

Australia’s compulsory superannuation system is a taxavoidance vehicle for the wealthy, and a goldmine for financial speculators and tax-dodging fund managers. It has to go. Instead, Australian tax dollars should support a guaranteed retirement safety net, by funding an adequate universal pension.

Footnotes

¹. “Australian Prudential Regulation Authority (APRA) Capability Review”, Treasury, 15 July 2019.

². “PSP Investments, a Canadian pension fund, could now be the largest owner of water in the Murray-Darling Basin”, Clint Jasper, ABC, 18 Feb. 2020.

³. “You’re losing your super because you were meant to—it’s a Macquarie scam”, Citizens Party media release, 11 Nov. 2011.

By Melissa Harrison, Australian Alert Service, 4 August 2021