



## **MEDIA RELEASE**

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### **BUDGET CAN HELP SLASH BURDEN OF LEGACY PRODUCTS TO ASSIST MORE THAN TWO MILLION CONSUMERS**

The Federal Government should use next month's Budget to advance policy commitments to help the financial services sector to get rid of old, substandard legacy products that do not benefit consumers, Financial Services Council CEO Sally Loane said today.

Ms Loane said the FSC had asked the Government in its pre-Budget submission to deliver on a commitment to slash the red tape hindering the rationalisation of legacy products right across the financial services sector.

"Many FSC members have legacy products in managed investment schemes, life insurance, and superannuation," Ms Loane said. "The FSC has estimated there are at least 600 legacy structures, each of which may contain multiple products, disadvantaging an estimated 2.44 million consumers.

"Our members have modernised their products over time, but customers with older products cannot easily be transferred into newer products. This is for several reasons, including significant tax liabilities triggered by shutting down legacy products, and a 'better off' test that is complex and expensive to apply. We have offered solutions to these barriers in our submission.

"Product rationalisation was a recommendation of the Financial Services Inquiry in 2014, which the Government accepted. The problems with legacy products were also highlighted this year by the Royal Commission and in the Productivity Commission's (PC) inquiry into superannuation. The PC estimated about \$160 billion in superannuation assets alone were in legacy products in 2017.

"Consumers should not be worse off due to any transition to a newer product and will most likely be substantially better off in modern products with lower fees, better customer service, and improved accessibility.

"The FSC believes a rationalisation scheme should involve a test to ensure a rollover is in the interest of consumers as a whole, and removal of any taxes on the rollover."

In its Budget submission, the FSC is also continuing calls for the Government to implement a zero rate of non-resident withholding tax on Asia Region Funds Passport payments. This would bolster the success of Australia's participation in the Funds Passport which started on 1 February.

"The Funds Passport allows eligible managed funds to be marketed to retail investors in participating countries, however tax reform needs to take place to maximise its potential," Ms Loane said.

“The Australian tax regime for managed funds is complicated, with high tax rates and many exemptions – creating the impression our funds are highly taxed even though a very small amount of revenue is raised from the funds. Addressing our complex, uncompetitive tax system will enable the Passport to promote the exports of Australian funds.”

The FSC pre-budget submission also calls on the Federal Government to:

- Negotiate a tax treaty with Luxembourg and Hong Kong; address any financial services issues in existing tax treaties; and ensure that all new Free Trade Agreements are accompanied by a tax treaty.
- Pursue a cut in the overall corporate tax rate to 25%, preferably to 22%. Prioritise meeting existing commitments to address outstanding Investment Manager Regime (IMR) issues, extend the attribution regime to Investor Directed Portfolio Services, and fix outstanding issues with the Taxation of Financial Arrangements.
- Abandon the proposal to remove the CGT discount at fund level and replace it with a measure targeted at any investors that are inappropriately accessing the CGT discount. If any unfavourable changes to the Offshore Banking Unit (OBU) regime occur, offset the adverse effect of this by abandoning the proposed change to the CGT discount at fund level and proposed changes to the AMIT penalty regime.

The FSC’s submission to the 2019-20 Budget can be accessed [here](#).

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#### **About the Financial Services Council**

The Financial Services Council (FSC) has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing almost \$3 trillion on behalf of more than 14.8 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.