South Australian Government Superannuated Employees Association Inc.
trading as:

S.A. Superannuants *Established 1927*

President: Ray Hickman
24 Castle Street, Modbury, S.A. 5092
Tel: (08) 82644146
e-mail: raywen@bigpond.net.au

Treasurer and Membership: John Reddaway
7 Mead Street, Paradise, S.A. 5075
Tel: (08) 83372425
e-mail: rjreddaway@adam.com.au

Secretary: Vic Potticary
27 Torrens Street, Torrensville, S.A. 5031
Tel: (08) 8352 6504
e-mail: cosme@senet.com.au

General Manager
Superannuation, Retirement and Savings Division
The Treasury
Langton Crescent
PARKES ACT 2600
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A Plan to Simplify and Streamline Superannuation

Introduction

SA Superannuants (the Association) is the organisation representing the interests of members of the South Australian Superannuation Scheme (SASS) receiving, or eligible to receive, a pension paid by that scheme. SASS is an untaxed scheme.

SA Superannuants has about 1500 financial members and total membership of SASS is about 21,000. Many of these 21,000 people have dependant spouses. The Association is very pleased to have the opportunity to comment on the Federal Government's proposals for superannuation set out in the document '*A Plan to Simplify and Streamline Superannuation*'. This document is referred to below as '*Simpler Super*'. **At the general level, the proposals set out in the document have the Association's wholehearted support.**

The bulk of this submission deals with specific proposals found within *Simpler Super* and includes some recommendations for adjustment of the proposals.

Comments/ Recommendations on Some Specific Aspects of *Simpler Super*

1. The 10% Tax Offset for Pensions Paid From Untaxed Sources.

For members of the Association this is the most important proposal contained in *Simpler Super* and it is very welcome, notwithstanding the fact that taxed source pensions are to be entirely tax-free.

In Section 8.1 of *Simpler Super* it is stated that, for reasons of equity, members of untaxed funds should expect to pay more tax on their pensions than members of taxed funds and **we accept this**. Members of taxed funds have had their benefits diminished by the tax that their fund has paid since 1 July 1988 and it is reasonable that they pay less tax when they receive their benefits than members of untaxed funds do. But the facts are that most members of untaxed funds have, for years, been paying more tax, and receiving smaller, after-tax incomes than would be the case if their pensions had been paid from a taxed source. Even when the new arrangements are in place there will be many members of untaxed funds who still pay more tax, and receive smaller, after-tax incomes than would be the case if their pensions were paid from a taxed source. These facts will be relevant to our comment below on different reporting requirements for superannuation income obtained from taxed funds *vis-a-vis* untaxed funds.

In making this point we do not mean to imply that the 10% tax offset is inadequate. We understand that it is the State Governments of South Australia (Labor and Liberal) which have insisted on running our pension scheme as an untaxed scheme when it could have been run as a taxed scheme. Furthermore, the proposed 10% tax offset has the great advantage of simplicity since it will not involve any adjustment in the gross pension value.

SA Superannuants welcomes the proposed 10% tax offset measure as one which will significantly improve retirement incomes for many of its members, and in a way that is transparent.

2. Reporting of Superannuation Income

In Section 2.2.3 of *Simpler Super* we read that individual taxpayers will not be required to include superannuation payments made to them from a taxed fund on their tax returns. This will reduce the tax the individual pays on other income. But in Section 8.2.3 we read that income from untaxed funds will be included in the tax return. We accept that this is necessary because there will usually be tax payable on an untaxed source pension after the 10% tax offset has been claimed.

But it seems inequitable for a member of an untaxed scheme, who pays tax on his/her pension, to then be required to pay more tax on other income than a member of a taxed scheme who pays no tax at all on superannuation income. There is also the medicare levy. This is not mentioned in *Simpler Super* but if taxed fund members do not include superannuation income on their tax returns they will pay a reduced medicare levy compared to members of untaxed funds.

Choosing the simple example of two people who both have income of $6000 p.a. from term deposit interest: why should one of these people have to pay tax and medicare on this income while another does not? The person who has to pay tax and medicare on the $6000 of interest (the member of an untaxed superannuation fund) might have a smaller total income than the person who does not have to pay tax and medicare (the member of a taxed superannuation fund) on the same amount of income of the same type. Furthermore, the person receiving the untaxed source pension might already be receiving a smaller after-tax pension than would be the case if his/her pension was paid from a taxed source.

Recommendation

that arrangements for individual tax returns be made which allow members of untaxed funds to have their other (non-superannuation) income taxed as if it was their only income.

We see this recommendation as being supported by equity considerations.

3. Death Benefits.

In Section 8.3.4 of *Simpler Super* it is stated that the taxation of death benefit payments as a reversionary pension would depend on the age of the primary and reversionary beneficiary.

It would appear that, if the primary beneficiary is aged 60 at death and so was eligible for the 10% tax offset then, the reversionary pension will also be eligible for the tax offset even if the surviving partner is aged under 60. The reasoning is that the surviving partner should continue to receive the tax advantage that the primary beneficiary was receiving even if the surviving partner has not met the age qualification.

However, if the primary beneficiary is aged less than 60 at death it would appear that the surviving partner will have to wait until his/her own age 60 before being able to claim the 10% tax offset. For consistency and fairness it would seem appropriate for a surviving partner to be able to claim the 10% tax offset from the same date that it would have been available to the primary beneficiary.

Recommendation

that death benefits received as pensions (from both taxed and untaxed funds) be taxed as if the reversionary beneficiary was the same age as the primary beneficiary would have been had he/she lived.

4. Undeducted Purchase Price for Pensions Paid to People Aged Under 60 y.

In Section 2.3.2 it is stated that after 1-7-2007 the undeducted purchase price of a pension paid from a taxed source to a person aged less than 60 will be calculated using the entire tax exempt component as defined under the new rules. This will often be a larger amount than is currently used.

For example it will include the pre-1 July, 1983 component of the lump sum value of the pension at its commencement.

In Chapter 8 of *Simpler Super* there is no suggestion that a similar arrangement will apply to pensions paid from untaxed sources to people aged under 60.

Recommendation

That untaxed source pensions commencing after 1-7-2007, and being paid to people aged under 60, have a deductible amount consisting of the sum of:

Undeducted Contributions at the commencement of the pension divided by life expectancy
and
The fraction of the taxable amount of the pension which equals the fraction of the person's eligible service period completed before 1 July 1983 as of that day on which the new pre-1 July 1983 component of superannuation benefits is calculated.

This deductible amount to be expressed as a fixed dollar amount which the person is able to claim until he/she reaches age 60 y after which time a deductible amount based on undeducted contributions alone will apply.

This recommendation will maintain equity between members of taxed and untaxed funds who commence their pensions and turn 60 after 1-7-2007.

Dr R.J.S. Hickman
24 Castle Street
Modbury, 5092 SA
Tel 0882644146
e-mail: **raywen@bigpond.net.au**