

8 August 2006

The General Manager,
Superannuation and Savings Division,
The Treasury,
Langton Crescent,
PARKES, ACT, 2600

SUBMISSION ON THE GOVERNMENT'S PLAN FOR SIMPLER SUPER

This submission has been prepared by the New South Wales Branch of the Regular Defence Force Welfare Association (RDFWA). Another submission was forwarded by our National Office on 1 August, and we fully support the content and thrust of that submission.

This submission, however, addresses a different aspect of the Government's plan.

We are concerned that the trend to treat all pensioners/superannuants in a similar fashion ignores the special, peculiar and often disadvantageous circumstances that apply to members of the Defence Force after they have become pension recipients. We contend that they have not participated in a superannuation scheme, as it is commonly known today. They are pensioners, not superannuants.

The conditions of employment within the Australian Defence Force include compulsory, tightly controlled, pension provisions along with mandatory retirement ages. Unlike any other Australian industry, Defence Force personnel are required to forfeit their employment at ages specified by Government legislation. Early termination of employment is not only determined by legislation, but also occurs because age inhibits acceptable performance.

Consequently, most servicemen leave their employment, voluntarily or otherwise, at a relatively early age with a pension which does not adequately support their future needs. They, generally, need additional income and seek employment in another industry.

Conversely, most private sector employees and members of the Public Service can remain employed in their chosen industry, progress to a satisfactory level of superannuation or pension and retire by choice.

To illustrate this point, figures provided by Comsuper indicate that, as at 30 June 1995, more than 90% of recipients of Defence Force pensions received less than \$29,000 p.a. whilst only 77% of Public Servant recipients were in the same bracket. The next bracket, \$30,000 to \$39,000, contained 14.63% of Public Service recipients but only 6.75% of ex-Servicemen.

We believe that these figures represent the stringent employment and termination conditions within the Defence Force which apply to neither the Public Service nor the private sector. We do not suggest any other interpretation.

Because of these stringent conditions, the majority of pension recipients under the DFRB, BFRDB and MSBS schemes retire between the ages of 40 and 50. Most are married with children. In order

to maintain a reasonable lifestyle and save for the future they have to augment their pension with other employment.

With this as a background, and despite the 10% proposed rebate, we believe that the requirement under the Government's proposal for Defence Force participants in "untaxed" schemes to continue declaring their pension income as fully taxable is unfair.

We can find no reason for those in "untaxed" schemes to declare their superannuation as part of their income whilst those in "taxed" schemes will not be required to do so.

We understand that participants in untaxed schemes will be required to pay tax on their pensions, and we have no quarrel with the need to provide equity with taxed schemes which leads to that position.

We know that there has to be a mechanism which assesses tax to be paid on pension income, but we dispute the need for that process to carry forward pension income in the assessment of overall tax.

We point out that whilst taxation equity between "untaxed" and "taxed" schemes may be achieved by this part of the proposal, the taxation outcome for "taxed recipients" is far more beneficial than the taxation outcome for "untaxed recipients". The need for the latter to declare their pension as taxable is inequitable.

To illustrate our concerns we recently commissioned Mercer Human Resource Consulting (MHRC) to provide a range of randomly selected scenarios to demonstrate the relative impact of "untaxed" recipients declaring their total income, vis-à-vis "taxed" recipients not declaring superannuation income. The MHRC examples include Senior Australian and Low Income offsets where applicable. The table below is based on those examples which, in turn, are forwarded as an enclosure to this document.

Government (Simpler Super) Proposed Basis

MHRC Example	Income			Superannuation/Pension Schemes			
	Pension\$	Other \$	Total \$	Untaxed\$	Taxed\$	Untaxed\$	Taxed\$
				Tax paid age 60-65		Tax paid after age 65	
1	10,000	15,000	25,000	1,250	750	0	0
2	25,000	5,000	30,000	1,450	0	0	0
3	25,000	15,000	40,000	4,850	750	4,512	0
4	40,000	5,000	45,000	4,850	0	4,850	0
5	40,000	15,000	55,000	7,850	750	7,850	0
6	60,000	5,000	65,000	8,850	0	8,850	0
7	60,000	15,000	75,000	11,850	750	11,850	0
8	75,000	5,000	80,000	12,350	0	12,350	0
9	75,000	15,000	90,000	16,350	750	16,350	0
10	75,000	35,000	110,000	24,350	5,650	24,350	4,686
11	25,000	0	25,000	0	0	0	0
12	40,000	0	40,000	3,350	0	3,012	0
13	60,000	0	60,000	7,350	0	7,350	0
14	75,000	0	75,000	10,350	0	10,350	0
15	20,000	30,000	50,000	8,350	3,950	8,350	2,362
16	20,000	40,000	60,000	11,350	11,350	7,350	7,012

Several of the scenarios have no direct relationship with this submission, but the table does give some insight into the overall impact of the Government's proposal, should it go ahead in its original form. Our specific concerns relate to examples 2 to 9 which examine 4 annual pensions (or superannuation payments) ranging from \$25,000 to \$75,000 and project net tax positions when these pensions are augmented by \$5,000 and \$15,000.

The outcomes are exactly what would be expected and the table simply quantifies it. In the case of the "taxed recipient", no tax is ever paid because of the \$5,000 of additional income, whilst a total of \$750 is paid annually on the \$15,000 from ages 60 to 65. Subsequently, no tax is paid.

The "untaxed recipient" whilst aged between 60 and 65 will pay tax ranging from \$1,450 to \$12,350, partly because the additional \$5,000 will be added to the pension income. The addition of \$15,000 in income leads to annual tax payments of between \$4,850 and \$16,350.

After the age of 65 the untaxed recipient will face a net tax payout of between \$0 and \$16,350, depending on base pension level and the quantity of augmenting income.

We acknowledge that a proportion of the tax is generated by the base pension, but suggest that the additional tax produced by the income earned to augment that pension is excessive and nugatory.

Although not a taxation item, the current proposal will also require "untaxed" recipients to pay the Medicare Levy on their pensions whilst the "taxed" recipients will have no such obligation.

The RDFWA (NSW Branch) proposes that pensions paid from an untaxed source be treated as "special income" so that it is not added to non-superannuation income in order to determine marginal tax rates.

Finally, in our opinion the initiative displayed by the Government and the Treasury in raising the concepts outlined in the Simpler Super Plan deserves to be recognised as a substantial contribution to the way ahead for Australia in the broader sense. It is rare for a proposal to be so beneficial to the entire community, and acceptable to all.

Yours faithfully,

(original signed by)
Bryan Wilson
President,
RDFWA (NSW) Inc.

Regular Defence Force Welfare Association

Examples of Public Sector **untaxed fund** pensioners compared to **taxed fund** superannuants in regards to the Government's May 2006 paper "A Plan to Simplify and Streamline Superannuation".

Consider a single person over age 65 and compare the tax payable where an untaxed pension is payable or a similar taxed pension is payable. The examples assume that there is no pre-July 1983 component or deductible component.

Example 1

Pension \$10,000, other income \$15,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$10,000	\$10,000	\$10,000	\$10,000
Level of other income	\$15,000	\$15,000	\$15,000	\$15,000
Gross tax on income	\$2,850	\$2,850	\$2,850	\$1,350
Less low income offset	\$600	\$600	\$600	\$600
Less SATO *	\$2,213	\$2,213	\$2,213	\$2,230
Less pension rebate	-	\$1,000	\$1,500	-
Net tax payable after age 65	\$37	0	0	0
Tax Saving	\$37		nil	
Net tax payable between ages 60 and 65	\$2,250	\$1,250	\$750	\$750

* SATO = Senior Australians Tax Offset

MERCER

Human Resource Consulting

Example 2

Pension \$25,000, other income \$5,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$25,000	\$25,000	\$25,000	\$25,000
Level of other income	\$5,000	\$5,000	\$5,000	\$5,000
Gross tax on income	\$4,350	\$4,350	\$4,350	-
Less low income offset	\$400	\$400	\$400	\$600
Less SATO	\$1,588	\$1,588	\$1,588	\$2,230
Less pension rebate	-	\$2,500	\$3,750	-
Net tax payable after age 65	\$2,362	0	0	0
Tax saving	\$2,362		nil	
Net tax payable between ages 60 and 65	\$3,950	\$1,450	\$200	0

MERCER

Human Resource Consulting

Example 3

Pension \$25,000, other income \$15,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$25,000	\$25,000	\$25,000	\$25,000
Level of other income	\$15,000	\$15,000	\$15,000	\$15,000
Gross tax on income	\$7,350	\$7,350	\$7,350	\$1,350
Less low income offset	-	-	-	\$600
Less SATO	\$338	\$338	\$338	\$2,230
Less pension rebate	-	\$2,500	\$3,750	-
Net tax payable after age 65	\$7,012	\$4,512	\$3,262	0
Tax saving	\$2,500		\$3,262	
Net tax payable between ages 60 and 65	\$7,350	\$4,850	\$3,600	\$750

MERCER

Human Resource Consulting

Example 4

Pension \$40,000, other income \$5,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$40,000	\$40,000	\$40,000	\$40,000
Level of other income	\$5,000	\$5,000	\$5,000	\$5,000
Gross tax on income	\$8,850	\$8,850	\$8,850	-
Less low income offset	-	-	-	\$600
Less SATO	-	-	-	\$2,230
Less pension rebate	-	\$4,000	\$6,000	-
Net tax payable after age 65	\$8,850	\$4,850	\$2,850	0
Tax saving	\$4,000		\$2,850	
Net tax payable between ages 60 and 65	\$8,850	\$4,850	\$2,850	0

MERCER

Human Resource Consulting

Example 5

Pension \$40,000, other income \$15,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$40,000	\$40,000	\$40,000	\$40,000
Level of other income	\$15,000	\$15,000	\$15,000	\$15,000
Gross tax on income	\$11,850	\$11,850	\$11,850	\$1,350
Less low income offset	-	-	-	\$600
Less SATO	-	-	-	\$2,230
Less pension rebate	-	\$4,000	\$6,000	-
Net tax payable after age 65	\$11,850	\$7,850	\$5,850	0
Tax Saving	\$4,000		\$5,850	
Net tax payable between ages 60 and 65	\$11,850	\$7,850	\$5,850	\$750

MERCER

Human Resource Consulting

Example 6

Pension \$60,000, other income \$5,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$60,000	\$60,000	\$60,000	\$60,000
Level of other income	\$5,000	\$5,000	\$5,000	\$5,000
Gross tax on income	\$14,850	\$14,850	\$14,850	-
Less low income offset	-	-	-	\$600
Less SATO	-	-	-	\$2,230
Less pension rebate	-	\$6,000	\$9,000	-
Net tax payable after age 65	\$14,850	\$8,850	\$5,850	-
Tax saving	\$6,000		\$5,850	
Net tax payable between ages 60 and 65	\$14,850	\$8,850	\$5,850	-

MERCER

Human Resource Consulting

Example 7

Pension \$60,000, other income \$15,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$60,000	\$60,000	\$60,000	\$60,000
Level of other income	\$15,000	\$15,000	\$15,000	\$15,000
Gross tax on income	\$17,850	\$17,850	\$17,850	\$1,350
Less low income offset	-	-	-	\$600
Less SATO	-	-	-	\$2,230
Less pension rebate	-	\$6,000	\$9,000	-
Net tax payable after age 65	\$17,850	\$11,850	\$8,850	0
Tax saving	\$6,000		\$8,850	
Net tax payable between ages 60 and 65	\$17,850	\$11,850	\$8,850	\$750

MERCER

Human Resource Consulting

Example 8

Pension \$75,000, other income \$5,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$75,000	\$75,000	\$75,000	\$75,000
Level of other income	\$5,000	\$5,000	\$5,000	\$5,000
Gross tax on income	\$19,850	\$19,850	\$19,850	-
Less low income offset	-	-	-	\$600
Less SATO	-	-	-	\$2,230
Less pension rebate	-	\$7,500	\$11,250	-
Net tax payable after age 65	\$19,850	\$12,350	\$8,600	0
Tax Saving	\$7,500		\$8,600	
Net tax payable between ages 60 and 65	\$19,850	\$12,350	\$8,600	0

MERCER

Human Resource Consulting

Example 9

Pension \$75,000, other income \$15,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$75,000	\$75,000	\$75,000	\$75,000
Level of other income	\$15,000	\$15,000	\$15,000	\$15,000
Gross tax on income	\$23,850	\$23,850	\$23,850	\$1,350
Less low income offset	-	-	-	\$600
Less SATO	-	-	-	\$2,230
Less pension rebate	-	\$7,500	\$11,250	-
Net tax payable after age 65	\$23,850	\$16,350	\$12,600	0
Tax saving	\$7,000		\$12,600	
Net tax payable between ages 60 and 65	\$23,850	\$16,350	\$12,600	\$750

MERCER

Human Resource Consulting

Example 10

Pension \$75,000, other income \$35,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$75,000	\$75,000	\$75,000	\$75,000
Level of other income	\$35,000	\$35,000	\$35,000	\$35,000
Gross tax on income	\$31,850	\$31,850	\$31,850	\$5,850
Less low income offset	-	-	-	\$200
Less SATO	-	-	-	\$964
Less pension rebate	-	\$7,500	\$11,250	-
Net tax payable after age 65	\$31,850	\$24,350	\$20,600	\$4,686
Tax saving	\$7,500		\$15,914	
Net tax payable between ages 60 and 65	\$31,850	\$24,350	\$20,600	\$5,650

MERCER

Human Resource Consulting

Example 11

Pension \$25,000, no other income

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$25,000	\$25,000	\$25,000	\$25,000
Gross tax on income	\$2,850	\$2,850	\$2,850	-
Less low income offset	\$600	\$600	\$600	\$600
Less SATO*	\$2,213	\$2,213	\$2,213	\$2,230
Less pension rebate	-	\$2,500	\$3,750	-
Net tax payable after age 65	\$37	0	0	0
Tax Saving	\$37		nil	
Net tax payable between ages 60 and 65	\$2,250	-	-	-

MERCER

Human Resource Consulting

Example 12

Pension \$40,000, no other income

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$40,000	\$40,000	\$40,000	\$40,000
Gross tax on income	\$7,350	\$7,350	\$7,350	-
Less low income offset	-	-	-	\$600
Less SATO	\$338	\$338	\$338	\$2,230
Less pension rebate	-	\$4,000	\$6,000	-
Net tax payable after age 65	\$7,012	\$3,012	\$1,012	0
Tax Saving	\$4,000		\$1,012	
Net tax payable between ages 60 and 65	\$7,350	\$3,350	\$1,350	-

MERCER

Human Resource Consulting

Example 13

Pension \$60,000, no other income

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$60,000	\$60,000	\$60,000	\$60,000
Gross tax on income	\$13,350	\$13,350	\$13,350	-
Less low income offset	-	-	-	\$600
Less SATO	-	-	-	\$2,230
Less pension rebate	-	\$6,000	\$9,000	-
Net tax payable after age 65	\$13,350	\$7,350	\$4,350	0
Tax saving	\$6,000		\$4,350	
Net tax payable between ages 60 and 65	\$13,350	\$7,350	\$4,350	-

MERCER

Human Resource Consulting

Example 14

Pension \$75,000, no other income

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$75,000	\$75,000	\$75,000	\$75,000
Gross tax on income	\$17,850	\$17,850	\$17,850	-
Less low income offset	-	-	-	\$600
Less SATO	-	-	-	\$2,230
Less pension rebate	-	\$7,500	\$11,250	-
Net tax payable after age 65	\$17,850	\$10,350	\$6,600	0
Tax Saving	\$7,500		\$6,600	
Net tax payable between ages 60 and 65	\$17,850	\$10,350	\$6,600	-

MERCER

Human Resource Consulting

Example 15

Pension \$20,000, other income \$30,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$20,000	\$20,000	\$20,000	\$20,000
Level of other income	\$30,000	\$30,000	\$30,000	\$30,000
Gross tax on income	\$10,350	\$10,350	\$10,350	\$4,350
Less low income offset	-	-	-	\$400
Less SATO	-	-	-	\$1,588
Less pension rebate	-	\$2,000	\$3,000	-
Net tax payable after age 65	\$10,350	\$8,350	\$7,350	\$2,362
Tax saving	\$2,000		\$4,988	
Net tax payable between ages 60 and 65	\$10,350	\$8,350	\$7,350	\$3,950

MERCER

Human Resource Consulting

Example 16

Pension \$20,000, other income \$40,000

	Untaxed pension		Taxed pension	
	Current basis	Government proposed basis	Current basis	Government proposed basis
Annual pension	\$20,000	\$20,000	\$20,000	\$20,000
Level of other income	\$40,000	\$40,000	\$40,000	\$40,000
Gross tax on income	\$13,350	\$13,350	\$13,350	\$7,350
Less low income offset	-	-	-	-
Less SATO	-	-	-	\$338
Less pension rebate	-	\$2,000	\$3,000	-
Net tax payable after age 65	\$13,350	\$11,350	\$10,350	\$7,012
Tax saving	\$2,000		\$3,338	
Net tax payable between ages 60 and 65	\$13,350	\$11,350	\$10,350	\$7,350

Dr David Knox FIAA

8 August 2006