CPSU Age Equity Network Submission to Department of Treasury

The **main concern** for members of the Commonwealth Public Service Superannuation Scheme (ComSuper), in particular, the PSS and CSS superannuation funds, is **one of equity with the rest of the community**.

The PSS and CSS funds differ from other superannuation funds in that the employer does not have to make its contribution until retirement and, instead of those contributions being paid into the fund and taxed, they are paid as part of the pension or lump sum to the superannuation fund member out of the Consolidated Revenue Fund.

These "untaxed" payments from the Consolidated Revenue Fund are therefore subject to tax in the hands of the recipients at the full marginal rate of tax. This is inequitable when compared with the overall treatment proposed to be accorded to those in receipt of pensions from other sources, including those who had the ability to salary sacrifice or for whom the employer made a more tax-advantaged contribution than is available to those in the PSS or the CSS.

"Taxed" and "Untaxed" Funds

The proposal does not appear to adequately define what an "untaxed fund" is for the purposes of implementing the changes.

Chapter 8, which is titled "Untaxed Schemes", commences with the statement – "*this chapter sets out the rules that would apply to superannuation benefit payments from an untaxed source (mainly affecting public servants). As no tax has been paid on either contributions or earnings, superannuation benefits from these funds have traditionally had a higher tax rate on withdrawal (for example, pensions are taxed at marginal tax rates with no 15 % rebate.*"

This statement is quite misleading.

Public servants contribute to their funds from taxed salary (that is, tax has already been paid, at the full marginal tax rate of the individual, on the amounts used to contribute to the PSS or the CSS). In other words, their contributions have borne tax, with this tax being invariably at a far higher tax rate than deductible contributions.

Earnings of the fund also bear tax and the productivity contribution bears tax when it is paid into the fund. What does not bear tax is the employer contribution (that is, the Government contribution) because the Government is not required to make its contribution until the person retires or otherwise becomes entitled to their benefit and then the employer does not pay this amount into the fund. It is possible that the authors of the government proposal were referring to different public service superannuation schemes from the PSS and CSS funds when they developed their proposal.

Federal public service members of these two funds are very concerned that there is a possibility that they are not going to be treated equitably, relative to other pension or lump sum recipients because of the author of the proposal may not have had sufficient knowledge of the operation of these two funds.

The proposal speaks in terms of "taxed" and "untaxed funds" and cites public service funds as an example of "untaxed funds". However, as has been pointed out above, public service funds are taxed funds with the exception of the government contributions. The government contributions are nevertheless still a liability to the employer and, if the funds were contributed at the same time as the employee contributions, the government would have that much less funds at its disposal to meet its various social service obligations. Clearly these two terms have to be defined more exactly so that they have a definite meaning.

Submission 1 – The terms "taxed" and "untaxed" funds should be defined more precisely

Another issue that has been raised, refers to the taxation rates that will be payable by members of Government-sponsored superannuation funds.

That submission is also supported.

Submission 2 - Although the Government under the proposal has made a concession to members of public service funds in the form of an offset, we submit that equity should be made transparent by using figures to demonstrate that equity does in fact exist.

Submission -3 – the Government should make adjustments to the proposal so that members of "untaxed funds" do not pay a higher marginal rate of tax on non pension income than members of "taxed funds" once the effect of the pension is factored into the calculation.

Based on the current wording of the proposal, members of untaxed funds are uncertain, when the new situation comes into operation after 1 July 2007, if, when paid a lump sum, it will be taxed at a flat of 15% on the full lump sum or if 95% of the pre-83 component will continue to be exempt from tax or if their own contributions plus interest (which have borne tax in full) will be excluded from tax.

Submission 4 – The treatment of the pre 1983 component of lump sums under the new proposal is not entirely clear in the proposal. The current situation where 95% of the pre-1983 component of lump sums from untaxed sources is exempt should continue to operate.

While the Reasonable Benefits Limits (RBLs) are proposed to be removed, there does not appear to be any proposal to remove the current Maximum Benefits Limits (MBLs) that apply to ComSuper pensions.

Submission 5 – In view of the abolition of the RBLs under the proposal, the MBLs involved in the PSS and CSS superannuation funds should similarly be abolished.

Under the proposal, there is a slight mis-match in that no Medicare levy is payable in respect of payments from taxed funds. To maintain parity, it is submitted that a similar arrangement be implemented for payments from "untaxed" superannuation funds.

Submission 6 – The Medicare levy should not be imposed on the taxation of lump sums or pensions paid from untaxed superannuation funds.