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SUBMISSION Re: A PLAN TO SIMPLIFY AND STREAMLINE SUPERANNUATION

Main Area of Concern: Resulting Inequities between “Taxed” and “Untaxed” Funds

I have read the above plan and wish to provide the following comments and recommendations for change.

The Government retirement policy is stated to assist and encourage people achieve a higher standard of living in retirement; by giving individuals choices, and by providing a superannuation and taxation system which is efficient and which increases incentives for people to work and save. I am a retired public servant and do not consider the proposals in the plan achieve these principles for all Australians.

I do not consider the outcomes are equitable between members of “taxed” and “untaxed” funds and very much disadvantages the 10% of the population who are / were employed in the public arena.

There are three main areas of the proposal where I consider equity issues present a problem.

1. Between “taxed” and “untaxed” funds.
2. Between lump sum and pension payment benefits.
3. Between superannuation payments being or not being included in a person’s assessable income for taxation purposes.

If there were no difference between taxed and untaxed funds, then the proposal would have simply outlined that:

1. Both lump sum and pension superannuation payments would be tax free for people aged over 60.
2. There would be no RBL.
3. Superannuation payments would no longer be included in a person’s assessable income and no longer need reporting in tax returns.

But there is a difference between taxed and untaxed funds and therefore there must be something in the proposal to provide equity and maintain this difference.

The difference between the “taxed” and “untaxed” fund is because of the 15% contribution tax deducted from contributions made since 1 July 1983. If this is the only difference, then to maintain equity, the taxation liability for the “untaxed” fund member should be no more than the equivalent of the 15% contribution tax paid on the post June 1983 element of their superannuation benefits.

This can be achieved by the following recommendations.

Recommendation 1 – That all superannuation benefits be treated equally and alike, by providing full equity of treatment between “taxed” and “untaxed” funds and by providing full equity of treatment between lump sum and pension payment entitlements.

Recommendation 2 – Members of untaxed superannuation funds should be provided with the capacity and opportunity to convert their “untaxed benefits” to fully “taxed benefit” status.

Recommendation 3 – All superannuation benefits should be segregated from all other assessable income types for taxation purposes and tax rules applied independently to them, as a separate entity, and not otherwise included in the person’s assessable income for taxable purposes.

Recommendation 4 - That a separate and independent tax rate be applied to all superannuation benefits at a maximum of 15%, applicable to both lump sum and periodical pension payments alike.

Recommendation 5 - That full concessional treatment be given for both pension and lump sum superannuation payment options alike, in respect of the pre and post July 1983 periods of service and contributions to superannuation.

Reasons

The relative equity between the “taxed” and “untaxed” funds of the current system has not been maintained under the proposed plan. Ten percent of the Australian tax paying population should not be unduly penalized because their employer is not required to pay tax. The imposition of tax levied on members of untaxed funds within the proposal, far outweighs the payment of 15% contribution tax on post June 1983 contributions made by taxed funds in the first place. This impact is clearly shown by the examples given on pages 6 and 7.

Under the current system, equity is maintained by the way all income is treated effectively alike for people over the age of 55.

- Pre July 1983 components appear to have no differences between taxed and untaxed funds.
- Post June 1983 components are effectively uniform, with all income treated as assessable income and reported in taxation returns.
- Contributions made from post tax dollars have no further taxation liability assigned them.
- Lump sum benefits are treated concessional, with maximum tax rate payable at 30% up to the RBL, with credit given for the 15% contribution rate already paid.
- Pension payments appear to have no concessional treatment, with tax payable at marginal rates, with allowance given for the 15% tax already paid and for any undeducted purchase price.
- Any other income received by the person is treated uniformly, being included in the person’s assessable income and taxed accordingly at marginal rates.

In other words, all income is effectively treated and assessed the same, with credit given for the relevant level of taxation already paid, either full or at 15%.

Under the proposed system,

- Lump sum and pension payments from taxed funds would be fully tax free for people over 60 years.
- Payments are no longer included as assessable income and need not be reported in tax returns.
- The RBL will also be abolished.
- Payments from untaxed funds will continue to be included as assessable income and need reporting in tax returns.

- Lump sum payments from untaxed funds will have the post June 1983 element taxed at 15% up to \$700,000, and then at marginal rates above that figure.
- Pension payments from an untaxed fund will be included as assessable income and taxed at marginal rates, with a 10% tax offset given to persons over 60 years of age.

Equity is no longer maintained between “taxed” and “untaxed” funds under this proposal, as:

- There is still effectively a RBL applied to the untaxed lump sum payment.
- Untaxed payments still need to be included as assessable income, making the tax payable on any other income received much higher.
- Overall tax payable is now more than just the 15% contribution tax payable on the untaxed post June 1983 element paid in the first place.

Similar inequities also exist in the proposed new plan between members of “taxed” and “untaxed” funds for people aged between 55 and 59 years.

The stated benefits of the changes are set out in the plan to be:

- Significant simplicity benefits for retirees and no need to pay for expensive financial advice on the tax treatment of entitlement payments.
- An average income earner would save around \$136 to \$192 per week if pension option taken.
- Many Australians would no longer need to include their super payments in assessable income, thus provide an incentive to continue working while drawing down their super.
- With no tax payable on their super payments, they may pay less tax on any income from work.
- Super payments not generally needed to be included in tax returns
- Would increase retirement incomes and provide greater incentive to work and save.

Very few of these “benefits” apply to the ex public servant who receives their superannuation benefits from the government “untaxed” fund.

- Savings are nowhere near the \$136 per week would be received for the average income earner who has not paid anything towards their superannuation benefit, or the \$192 per week savings for the person who has contributed salary sacrifice of 5%.
- The public servant would be lucky to receive savings of around \$96 per week (being the 10% rebate on a super payment of around \$50,000 per annum).
- Super payments would still need to be included in assessable income, meaning any additional income earned or derived would be taxed at 30% minimum.
- There would be little incentive for the ex public servant to work or provide for any additional income to be received in retirement.

The retirement income of the ex public servant would be increased, but by a very small amount in comparison with the other 90% of retired superannuation recipients. The proposal as presented does not provide equity to all superannuation fund members and much disadvantages the ex- public servant, especially those who have planned to provide additional non superannuation income for their retirement.

The recommendations of this paper are submitted to improve the retirement incomes and provide equity of treatment between members of all superannuation funds, not just 90% of them.

Recommendation 1 – That all superannuation benefits be treated equally and alike, by providing full equity of treatment between “taxed” and “untaxed” funds and by providing full equity of treatment between lump sum and pension payment entitlements.

Recommendation 2 – Members of untaxed superannuation funds should be provided with the capacity and opportunity to convert their “untaxed benefits” to fully “taxed benefits” status.

The “untaxed” element only relates to the period post 30 June 1983, and the discussion paper outlines how funds from an “untaxed” element can be rolled over to a “taxed” element. This is arranged by the receiving fund deducting the 15% contributions tax from any post June 1983 “untaxed” element. Upon withdrawal, the paper outlines amounts will be subject to the rules applicable to post June 1983 components.

As there is to be such a marked difference in the treatment for taxation purposes for the “taxed” and “untaxed” funds, equity dictates that provision should be available for them to be treated the same. This could be achieved by providing members of funds with the capacity to convert their “untaxed” benefits into “taxed” benefits.

- This should be available for both lump sum payments and pension payments alike,
- Pre and post July 1983 components of service / period of contributions would be identified,
- An amount equivalent to the 15% contribution tax could be deducted in respect of the post June 1983 contribution period.

Superannuation funds only need to identify the pre and post July 1983 periods, to calculate which amount of the superannuation benefit entitlement is contributed to the post June 1983 period. It should then be a simple task to calculate and deduct the “15% contribution tax” amount in respect of the post June 1983 component.

If members of “taxed” funds are to have their lump sum benefits and pension payments treated exactly alike (i.e. both completely tax free once attaining the age of 60), then there should also be full equity for members of “untaxed” funds to be able to convert their benefits to “taxed” status (by deducting the equivalent 15% contribution tax on the post June 1983 components) and receive both their lump sum and pension entitlements tax free at the age of 60.

For example – a \$50,000 per annum untaxed superannuation pension entitlement for a public servant with contributions to super over the period 1 July 1967 to 30 June 2005. (total period 38 years)

The pre 30 June 1983 component would be 16 years (42.11%) = \$21055

The post 1 July 1983 component would be 22 years (57.89%) = \$28945

The 15% contribution tax on the post June 1983 component to convert the untaxed payment to a taxed payment would be \$4342. This amount would be deducted from the “untaxed” super payment of \$50,000, leaving the net amount of \$45,658 pension payable tax free for the person over the age of 60. This would provide a saving of around \$6758 (\$129 per week) in the tax payable of \$11,100 for the untaxed person in the example on page 6. This amount is similar to the savings of \$136 per week given as an example in the proposal plan paper.

15% contribution tax on the total superannuation payment of \$50,000 would be = \$7500.

15% contribution tax on the post June 1983 component would be = \$4342.

As “untaxed” elements only relate to post 1 July 1983 periods, only the post June 1983 element should be subject to the 15% contribution tax applicable.

To convert the equivalent untaxed lump sum payment of \$550,000 to a taxed element, the transfer value would be 15% on the post June 1983 component of \$318,395, being a deduction of \$65,126.

One of the objectives of the proposed superannuation scheme is to maintain the equity between taxed and untaxed superannuation schemes. By allowing members of untaxed funds the option of converting their entitlements to “taxed” status, the equity would be maintained. By providing this option to convert both pension payments and lump sum payments in the same manner, equity between the payment types is also maintained.

Recommendation 3. All superannuation benefits should be segregated from all other assessable income types for taxation purposes, with tax rules applied independently as a separate entity, and not otherwise included in the person's assessable income for taxable purposes.

If the superannuation payment was to be segregated from other income, both retirees from taxed and untaxed funds would be treated alike as regards other taxable income received.

Example A - Tax payable for a person receiving an annual superannuation payment of \$50,000 - Superannuation income not segregated.

Taxed Fund	Untaxed Fund
<p>Annual super of \$50,000 paid to person aged over 60 - nil tax payable Amount not included as assessable income No reporting required in tax return No Medicare levy payable</p> <p>Total tax payable on super payment = nil</p> <p>If additional rental income of \$10,000 PA paid Total taxable income would be \$10,000 Tax payable = \$0 - \$6000 - nil tax payable \$6000 - \$10,000 (\$4000 @ 15%) = \$600 Plus Medicare levy (\$10000 @ 1.5%) = \$150</p> <p style="text-align: right;">Tax payable = \$750</p>	<p>Annual super of \$50,000 paid to a person aged over 60, tax payable = \$1 - \$6000 - nil tax payable \$6000 - \$25000 (\$19000 @ 15%) = \$2850 \$25000 - \$50000 (\$25000 @ 30%) = \$7500 Plus Medicare levy (\$50000 @ 1.5%) = \$750 Tax payable = \$11100 Less 10% rebate = \$5000 Tax payable on the super payment = \$6100</p> <p>If additional income received of \$10,000 PA Total taxable income would be \$60,000 Tax payable = \$0 - \$6000 = nil payable \$6000 - \$25000 (\$19000 @ 15%) = \$2850 \$25001 - \$60000 (\$35000 @ 30%) = \$10500 Plus Medicare levy (\$60000 @ 1.5%) = \$900 Less 10% rebate on super payment = \$5000 Making total tax payable = \$9250</p>
<p>The difference in tax payable is \$ 8500</p>	<p>The difference is more than what the 15% contribution tax would be on the original \$50,000 (15% of \$50,000 = \$7500)</p>
<p>If additional income is \$20,000 per annum, total Taxable income would only still be \$20,000. Tax payable = \$0 - \$6000 - nil tax payable \$6000 - \$20000 (\$14000 @ 15%) = \$2100 plus Medicare levy (\$20,000 @ 1.5%) = \$300</p> <p style="text-align: right;">Total tax payable = \$2400</p>	<p>Additional income of \$20,000 per annum, total Taxable income would be \$70,000 Tax payable = \$0 - \$6000 = nil \$6000 - \$25000 (\$19000 @ 15%) = \$2850 \$25001 - \$70000 (\$45000 @ 30%) = \$13500 plus Medicare levy (\$70000 @ 1.5%) = \$1050 Less 10% rebate on super payment = \$5000 Total Tax payable = \$12400</p>
<p>Difference in tax payable = \$10,000</p>	<p>Tax difference in much more than the 15% tax Difference that would have been payable in the First place. (15% of \$50,000 = \$7500)</p>

The difference in tax payable is much more than the original 15% contribution tax payable in the first place.

The “untaxed person” appears to have become the “overtaxed person”. The more the additional income is, the higher the difference is in tax payable, as any additional income received is immediately taxed at 30%.

These figures show the proposal is not equitable for people covered by “taxed” and “untaxed” funds and does not encourage the “untaxed” person to provide additional non superannuation income for their self support.

If the superannuation payment was to be segregated from other income, both retirees from “taxed” and “untaxed” funds would be treated alike as regards other taxable income received.

Example B - Tax payable for a person receiving an annual superannuation payment of \$50,000 - Superannuation income Segregated.

Taxed Fund	Untaxed Fund
<p>Annual super of \$50,000 paid to person aged 60 Tax payable on super payment = nil</p> <p>If additional rental income of \$10,000 PA paid Other taxable income would be \$10,000</p> <p>Tax payable = \$0 - \$6000 - nil tax payable \$6000 - \$10,000 (\$4000 @ 15%) = \$600 Plus Medicare levy (\$10000 @ 1.5%) = \$150 Tax payable on other income = \$750</p> <p>Tax payable on combined income = \$750</p>	<p>Annual super of \$50,000 for person aged 60 Tax payable on super payment = \$6100</p> <p>If additional income received of \$10,000 PA Other taxable income would be \$10,000</p> <p>Tax payable = \$0 - \$6000 = nil payable \$6000 - \$10000 (\$4000 @ 15%) = \$ 600 Plus Medicare levy (\$10000 @ 1.5%) = \$ 150 Tax payable on other income = \$ 750</p> <p>Tax payable on combined income = \$6850</p>
<p>The difference in tax payable is \$ 6100</p>	<p>The difference in tax payable in this example is Only the amount attributable to the untaxed Super payment (\$6100)</p>

This example shows quite a marked difference in the previous example where the “untaxed” person was liable for a tax payment of \$9250, making a savings of \$2400.

By segregating the superannuation payment from other income, you can maintain the perceived “equity” between the “taxed” and “untaxed” fund members, without discouraging the “untaxed” fund member from undertaking additional work or providing additional non-superannuation income for their retirement.

If the superannuation payment is not segregated, any additional income is immediately taxed at 15 or 30 cents in the dollar. This would not encourage any additional work or savings to be undertaken by a person required to pay tax on their superannuation benefits.

By not segregating the superannuation payment from the other income, you create complete “inequity” between “taxed” and “untaxed” fund members, with regards to any additional non-superannuation income.

Recommendation 4 – A separate tax rate be applied to all superannuation benefits at a maximum rate of 15%, applicable to both lump sum and pension payments alike,

Recommendation 5 - Full concession should be given for both payment options in respect of the pre July 1983 service and contributions to superannuation.

There are a few equity issues affecting the rate of tax applicable to superannuation entitlements.

- The 15% contribution tax payable on pre tax dollar contributions to superannuation and the concessions given for this payment.
- The different tax treatment applied in respect of pre and post July 1983 periods.
- The different tax rates applied in respect of lump sum and pension payments.
- The difference between “taxed” and “untaxed” elements only relates to post June 1983 periods.
- Lack of consideration given to any pre July 1983 elements for untaxed pension payments.

The proposed new system provides that all payments from “taxed” funds to persons over the age of 60 will be tax free, on the basis that at least 15% tax has already been paid on post June 1983 contributions. This means there will be no difference in the tax rates payable for members of “taxed” funds who draw down their benefits, regardless if they choose the lump sum or pension options.

Similar provisions should also be applied to members of “untaxed” funds, whereby tax should only be applied at a maximum of 15% for any and all “untaxed” benefits received. As with the “taxed” funds, this should be applicable for both lump sum and pension payment options alike.

A withdrawal tax could be deducted from any superannuation benefit received from an “untaxed” source at a rate of 15% applicable to any and all the post June 1983 component of the amount. This would be applicable to both lump sum and pension payments alike. This would then provide equity in treatment between “taxed” and “untaxed” funds, by meaning tax at a maximum 15% is paid on all superannuation benefits, either by way of the contribution tax paid in the beginning or the withdrawal tax on the “untaxed” funds at the end.

Full equity of treatment for all superannuation fund members can be achieved by implementation of this and the other recommendations included in this submission. The focus of the submission is:

- That all superannuation benefits be treated equally and alike.
- That members of “untaxed” funds have the capacity to convert their benefits to “taxed” status.
- That super benefits be segregated from other assessable income and taxed independently.
- That one single tax rate be applicable to all superannuation payments, being one 15% contribution tax rate.
- That full concession be given for all pre July 1983 periods of service and contributions to super.

By segregating superannuation payments from other assessable income, equity is maintained between taxed and untaxed fund members in respect of the tax payable on any other non superannuation income received.

By having one single tax rate of 15% applicable to all superannuation payments and by providing full consideration to both pre and post June 1983 periods for all benefits, equity is maintained between taxed and untaxed funds and between lump sum and periodical pension payments.

By allowing members the capacity to convert untaxed funds to taxed funds, equity is maintained for all members, by giving neither advantage or disadvantage over the other.

The Advantage of the Recommendations Submitted

The outline of the original proposal was to provide that:

- benefits from taxed funds would be free of tax for those over 60;
- that benefits from untaxed funds would still be taxed, but at lower rates, and
- RBLs would be abolished.

The basis of my recommendations is to provide amendment to the proposals, by providing more equitable treatment between the benefits of all superannuation funds for the benefit of all superannuation members.

The advantages of my amendments improve on the proposals, as they:

- Provide equity for 100% of superannuation fund members, not just 90%.
- There would no longer be a disincentive for any people to do some work or provide themselves with additional income while drawing down their superannuation benefits.
- With superannuation no longer included in assessable income for all people over 60, all retirees would pay less tax on any other income received to supplement their retirement.
- Would increase the total retirement incomes for all superannuation recipients and provide greater incentive to work and save.

This paper is submitted for consideration, with the aim to improve the retirement situation for all Australian superannuation fund members, not just a large proportion of them

Sue Campbell
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