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

Taxation of superannuation income streams for over 60s
Proposed rules to apply from 1 July 2007

The proposed arrangements are said to provide equity between those receiving income streams from untaxed funds and those receiving income streams from taxed funds.

At low levels of retirement income streams and where there is no other income it could be argued that there is something approaching equity. However at slightly higher levels of superannuation income streams and also in situations where there is income from other sources, there is a huge discrepancy between tax payable on the same level of income.

Some simple calculations will illustrate. The attached Microsoft Excel Workbook contains four examples.

Scenario 1 shows the difference in tax payable on a \$30,000 superannuation income stream and \$1,000 from wages is \$1,649.70.

Scenario 2 varies from scenario 1 in that income from employment is \$10,000. In that case the member of the untaxed fund pays \$3,749.85 extra tax.

Where the superannuation income streams from the two types of fund is \$40,000 the difference in tax paid is even more marked. In scenario 3, which includes \$1,000 wages, the difference is \$3,649.70. Where the wages component is increased to \$10,000, Scenario 4 shows the difference in tax payable is \$5,749.85.

The calculations of difference in tax in these examples do not include levies or surcharges (*eg* Medicare Levy) which would, if included, increase the differences. Nor do the calculations take account of any tax offsets that may apply as these depend entirely on individual circumstances.

Apart from the significant differences in tax paid there is a further disadvantage to the recipient of the retirement income from an untaxed fund. This is because assessable (and taxable) income includes the income stream, whereas it is not included for the recipient of income from a taxed fund. The significance here is that various tax, superannuation, and social security benefits are determined on the basis of income. Furthermore the person receiving the benefit from the taxed fund would be eligible for further concessions and benefits where those concessions or benefits are based on taxable income, whereas the person receiving superannuation income from an untaxed fund would in most cases not be eligible for those benefits.

In other words apart from substantial differences in tax payable the recipient of income from an untaxed fund will be denied benefits to which the person receiving income from a taxed fund will be entitled.

Suggested alternative methods of taxing superannuation income streams are:

1. Benefits from untaxed funds continue to be treated as assessable income with a differential rebate applying. Rebates to closely match the differences in benefits arising between the two types of funds because of the differing taxing arrangements on contributions.
2. Only a proportion of the income stream from untaxed funds is included as assessable income.
3. Neither income stream is included in assessable income, but a separate special rate applies to income from untaxed funds. The special rate to reflect fairly and objectively the difference between the actual income stream and the income stream that would have been derived had the fund been taxed in the normal manner.

I trust that you will carefully review the proposed arrangements to ensure that recipients of retirement income streams from untaxed superannuation funds are treated fairly and equitably and not required to pay a greater amount than is necessary to account for the different fund taxing regimes.

Yours faithfully

Warwick Gardiner

Enclosure

Proposed over 60s retirement tax

Scenario 1

Tax rates from 1/07/2006:

Income	Income	Basic Amount	Marginal Rate for additional income	Rebate rate for untaxed income streams
0 - 6,000	0	0	-	0.1
6,001 - 25,000	6001	0	0.15	
25,001 - 75,000	25001	2850	0.30	
75,001 - 150,000	75001	17850	0.40	
>150,000	150001	47850	0.45	

[Figures in blue can be adjusted to test various scenarios]

Calculations

	Taxed fund	Untaxed fund
Superannuation income stream	30,000.00	30,000.00
Investment income	-	-
Capital gains	-	-
Employment	1,000.00	1,000.00
Gross income	31,000.00	31,000.00
Assessable income	1,000.00	31,000.00

Deductions

Dividend and interest	-	-
Gifts	-	-
Total deductions	-	-

Taxable income	1,000.00	31,000.00
Marginal rate income	-	25,001.00
Basic tax	-	2,850.00
Marginal tax rate	-	0.30
Tax	-	4,649.70
Rebate	0	3,000.00
Net tax	-	1,649.70

Difference

1,649.70

Also need to add Medicare, Medicare levy surcharge and the effects the higher TI has on other tax calculations and means tested benefits under other legislation, including age pension.