

PENSION REVIEW SUBMISSION  
SUBJECT: STRUCTURE OF AND ELIGIBILITY REQUIREMENTS FOR THE SENIOR  
AUSTRALIANS TAX OFFSET.

Please note; in order to keep this paper as brief and concise as possible, taxpayers are assumed to be male, and spouses female. It is recognised that the reverse can be the case.

The Senior Australians Tax Offset (SATO) was introduced by the Federal Government in the year 2000, and became operative for the 2001 tax return. Its intention was to give some tax relief to retirees by providing them with an additional tax offset. It is the purpose of this paper to show that the SATO is not structured appropriately for all senior Australians, and as a consequence, the advantages of this tax reform are not shared equally by them.

The SATO is fine for single retirees, couples if their income is the same, or nearly so, and for couples who are the same age, or where the taxpayer is younger than his spouse. If, however, the taxpayer is older than his spouse, as is nearly always the case, and most of the retirement income is paid to him, he and his wife will be severely disadvantaged. It is possible for a taxpayer to satisfy all four requirements for the SATO listed on pages 86-87 of Tax Pack 2008, and yet be ineligible, not because his spouse is a wealthy woman, but because she is younger than him, and not yet of retirement age. Under the present rules, she in that case does not get the SATO, so none is transferable to him, so his threshold is only \$34,496; \$921 less than that of a single person. If his taxable income exceeds this threshold, his SATO will cut out. What the Government is ignoring is the amount of financial loss which the couple will incur every year that they are unable to claim the full SATO. The table below will illustrate this.

Man's Taxable Income	Senior Australians Tax Offset
\$25,000	\$2,850
\$35,000	\$2,749
\$40,000	\$2,124

These figures were obtained from the ATO web site, using the SATO calculator, and claiming to be a pensioner couple. His wife is assumed to have an insignificant separate net income. Conversely, a man on \$25,000 whose wife was not eligible because of her age would get a SATO of only \$1,062, and the other examples below on higher incomes would get nothing. The amounts represent whole tax- free dollars, as offsets are deducted from tax payable. This means that the couple will have to endure a considerable financial loss until the woman attains pensionable age.

In most marriages and de facto relationships the man is older than the woman; usually by only one or two years, but it is not unusual for the man to be 10 to 12 years older, or even up to 20 years older in some cases. Another factor which is contributing to the problem is the gradual raising of the pensionable age for women. As she grows older the goal posts are shifted, and her transition to age pensioner is delayed. In the case of a man who is 13 years younger than his wife, as I am, he will be 78 before he can start to claim the full offset. This delay causes a total loss of a tax- free sum, and therefore cash of \$35,737 for a taxable income of \$35,000; more than a whole year's taxable income.

The reason why this is unfair is that a conscientious man will have worked all his life to produce an income sufficient to maintain his wife and children, and during the course of his career, he will have made extra superannuation contributions, in order to ensure that his dependants will continue to be provided for in his retirement. Unless, however, he manages to apportion some retirement income to his wife, it will all be paid to him; superannuation pensions, however, cannot be "split", and because of this, the ATO, mistakenly or on purpose assumes that the money is for him alone, and only allows him to use his own SATO threshold. This means that his wife also suffers, because there is less money available within the household, because he is paying more tax than he should. It is a pity that "his" income is not considered to be "their" income, because being allowed to split the husband's income would be a great financial advantage for most couples. His threshold for

receiving the SATO would remain the same, but his taxable income would be halved, therefore he would then obtain a financial benefit from his SATO. His wife's taxable income would increase, but her income threshold would limit the tax which she was liable for. It is interesting to note that if a retired couple were to obtain a divorce, or separate in the case of a de facto relationship, the wife would be awarded half of her husband's superannuation pension. This would effectively achieve the result of splitting their income, but at the expense of their marriage. If the Government supports this, why does it not support income splitting for couples who stay together? If the Government continues to disallow income splitting, the nexus between the spouse's attainment of pensioner status and being awarded the SATO needs to be broken where she is younger than the taxpayer and has a much smaller income.

In the case of the Spouse Tax Offset, it is only reduced if her Separate Net Income exceeds a certain threshold. It is unaffected by the spouse's age, and rightly so, as her age should have nothing to do with what her husband is entitled to claim. If this is so, why should the entitlement to the SATO be dependent on her age? The couple's living expenses go on whether she is 65 or 45, so she should be entitled to the SATO, providing her Separate Net Income does not exceed the threshold, and if it does, she should not lose all of it, but only the same amount in the dollar that the Spouse Tax Offset is reduced by after reaching that threshold.

Although the loss of these considerable amounts of money is serious enough in itself, what really hurts is the fact that Seniors have not been given a "fair go." The Government has made the gesture of introducing the SATO, but many have "fallen through the cracks." I do not believe that they have been deliberately discriminated against, but the effect is the same.

#### Recommendation 1:

That the Government directs the Australian Taxation Office to allow all retiree couples to split or equalise their combined income so that each partner has the same taxable income. Their individual SATOs can then be applied separately when each of them becomes eligible, the husband being assessed as a single man until that time.

OR

#### Recommendation 2:

That the wife's or dependant spouse's SATO should be treated like the Spouse Tax Offset; subject only to the wife's Separate Net Income on a sliding scale, and not to her age.

Yours faithfully,

James Kay Reddyhough

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