

November 26, 2008

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

The Review Secretariat,

Today I became aware of your Tax review.

My submission concerns what I see to be an unfair tax impost on recipients of Australian Superannuation Income Streams. I have no concern about paying tax on the superannuation amounts received. However, I have a concern about the flow-on effect when such amounts are declared as income on tax returns and other additional income is also included.

I will attempt to demonstrate the circumstances and my perceptions as precisely as possible using hypothetical amounts for convenience.

I was an employee of the Commonwealth Public Service.

I now receive an indexed superannuation pension from an untaxed source. Accordingly my fortnightly superannuation payments are amounts that must be declared on my Income Tax Return. To give a measure of relief from the amount of income tax I must pay on my superannuation I am given a Tax Offset - Australian Superannuation Income stream – being the equivalent of 10% of my Superannuation received.

However, the full amount of my superannuation received still must appear on my Tax Return as income.

Others receiving superannuation payments from taxed superannuation funds do not need to declare their superannuation income when lodging their income tax returns as Superannuation benefits are tax-free if paid from a taxed source and you are 60 or over.

To quote from an on-line Australian Tax Office Publication:

I am a retired public servant. Will my superannuation pension be tax-free?

No. The benefits of many retired public servants are paid from superannuation schemes that don't pay tax or from a Government's revenue. These sources are sometime called untaxed sources. If your super benefit comes from an untaxed source, it will be taxed when you receive it regardless of your age. However, if you are aged 60 or over when you receive a superannuation pension, you may be entitled to a 10% tax offset that will reduce the tax payable.

Will I have to lodge an income tax return?

When you are 60 years or over, you don't have to declare tax-free income paid from taxed sources of superannuation. If your only source of income is superannuation benefits from a taxed source you won't need to lodge an income tax return.

You **will** have to lodge an income tax return if you have income from other sources, including from investments or untaxed superannuation sources, such as some public service super funds.

My perception of an anomaly is as follows:

People who are paid from a superannuation scheme that is an untaxed source are obliged to declare their amounts of superannuation received as income.

Whereas people who are 60 years or over, don't have to declare tax-free income paid from taxed sources of superannuation.

Therefore, if both a retired Commonwealth public servant receiving superannuation from an untaxed source and a retired person receiving superannuation from a taxed source had rental property income the taxing values differ considerably and therefore the amount of Income Tax payable is disproportionate.

As an example I submit the following using 2008 financial year values:

A Commonwealth Public servant receives an amount of \$30,000 superannuation for the year
Tax payable \$3600 plus Medicare levy \$450 = \$4,050

Less low income offset \$750 and less \$3,000 being 10% of superannuation amount = \$3,750

The amount of tax payable is \$300.

A negligible amount but still requires the inconvenience of lodging an Income tax return which for some incurs an accountant's fee as well.

A person with taxed fund superannuation of \$30,000 does not declare any income and pays no tax. If this is their only income there is need for lodging further income tax returns.

It is relatively fair and equitable to this point.

Where it gets disturbing is if both had net rental income of say \$25,000

Person with taxed fund superannuation income would only declare net rental income of \$25,000

and pay income tax of \$2,850 + Medicare levy \$375 = \$3,225

Less low income tax offset of \$750

Tax payable \$2,475.

Commonwealth Public servant receives net rental income of \$25,000 on top of the superannuation of \$30,000 and MUST declare income of \$55,000.

Tax payable is \$11,100 + Medicare levy \$825 = \$11,925

Less \$3,000 being the 10% Australian Superannuation Income Stream amount

Amount of Tax payable is \$8,925

I believe that the extra \$6,450 payable just because of the way the Commonwealth has its superannuation managed is an unfair impost. It results in almost \$250 a fortnight extra income tax payable including an extra \$17.30 Medicare levy amount.

I shall develop the argument a little further. If in fact the need to declare the Government superannuation payments is to ensure that untaxed superannuation funds have subsequent payments taxed and given that most if not all are Government operated or controlled would it not be easy to tax the superannuation payments at an appropriate and final rate at the Superannuation fund level.

Conversely if the aim is to ensure that tax is paid, why declare the payments on an income tax return that could lead to no tax being paid if in fact people were still "negatively gearing" their investments.

The others with payments from superannuation funds that are taxed are not allowed any potential tax credit offset.

I submit the following:

The untaxed source Superannuation Fund managers collect the full and final amount of tax payable on superannuation payments made by them. This would obviate the need for the recipients to

declare such income on their income tax returns and it would indeed reduce the number of tax returns being lodged; or

Future Income Tax returns be re-designed in such a way that the Australian Superannuation Income Stream amounts at Items 7 and T4 on the 2008 year Tax return for individuals be quarantined. This would mean that the income and credits were not added to or included with any other income declarable such as investments, dividends or other earned income.

I further submit that:

Consideration is given to exempting the levying of the Medicare Levy on any Superannuation amounts regularly paid after retirement as other retirees who do not declare their superannuation income do not pay a Medicare levy amount.

I thank you in anticipation that my submission may at least be considered in a favourable manner.

Kind regards,

Sam Heron