This submission is on the tax and transfer system and related benefits. I have attached my earlier submission to the pension review and would like it to be considered as part of this submission to the tax review. There is some overlap between the two submissions and I suggest that my pension submission is read before this one.

Abbreviations used in this submission are:

ATO	Australian Taxation Office
CCB	Child Care Benefit
CCTO	Child Care Tax Offset
CSHC	Commonwealth Seniors Health Card
DSTO	Dependent Spouse Tax Offset
EMTR	Effective Marginal Tax Rate
FTB	Family Tax Benefit
LITO	Low Income Tax Offset
METO	Medical Expense Tax offset
PBS	Pharmaceutical Benefits Scheme
PHI	Private Health Insurance
SATO	Senior Australian Tax Offset
SMSF	Self Manage Super Fund
SNI	Separate Net Income
YA	Youth Allowance

Some additional data would be helpful in making submissions, and it would add to public transparency. I would like to see a breakdown by age (at least for those over 65) and income for the following:

a. super,
b. METO,
c. DSTO, and
d. PBS benefits

In some areas, a split between singles and couples would also be useful, or at least data just for singles. Further detail is in the body of the submission.

The massive and increasing complexity and administrative burden in the tax and transfer payments systems point to systemic issues with the development of policy in this area. It affects all sectors of the economy including ordinary households and many of the issues are well documented by an army of researchers. The issues are magnified by the role and interaction of the three levels of government.

The complexity of the current system can be reduced with benefits including reduced administrative costs in all sectors of the community and less economic distortions that will allow more freedom of choice, and probably improved economic output, social and environmental benefits. Mechanisms to address these systemic issues are required to avoid repetition of the same problems.

The system is riddled with numerous definitions of income and adjusted taxable income that are applied over different time intervals and starting at different times during the year.

Super is a particular problem because the income is off the books so to speak. The super industry gets enormous protection through tax and Centrelink rules that people feel obliged to use the legal vehicle even when they don’t wish to. People with large financial assets can use a SMSF at some expense and exercise control of their investments. People with fewer assets (middle Australia) can hold them in a public fund, again at expense, and with a lot less control of the investment process. They cannot justify the expense of a SMSF. People with very small sums gain no benefit from super during retirement after age 65. In this era where the financial assets of middle Australia are increasingly managed at arms length by fund managers, who are the shareholders voting at AGMs? Is it part of the reason for the current financial crisis? Fund managers (who may or may not be banks) owning each other, voting for each other at AGMs and, and setting remuneration for each other, using other peoples money.

Super - need for more data

Most super income for people over 60 will disappear from the ATO Taxation Statistics for individuals after next years publication and it is not clear from public data if much tax will be collected from people over 65 in coming years because of simpler super.

Personal Tax Table 11 in ATO Taxation Statistics 2005/06 shows that:
551,825 individuals aged 65 and over paid $7,106,865,107. Of these, 124,755 had taxable income over $60,000 and paid $5,223,017,868. The remaining 427,070 had taxable income of $60,000 or less and paid $1,883, 847,949. Total tax paid for all age groups was $108,704,189,065.

A breakdown of personal taxable income by taxable income brackets and by age brackets, or at least for the 65 and over age group, into the following categories would be useful.
a. taxable income from super
b. taxable income from other investments outside super
c. taxable income from wages and personal exertion, and
d. taxable income from government pensions and allowances, eg the age pension

The above breakdown would show trends in tax from specific sources and assist in showing the impact of specific policy proposals from outside the government.

The addition of income from super that is not part of personal taxable income would be desirable, but may be extraordinarily difficult because of multiple definitions of income. There may also be problems with differences in data collection from self managed super funds and large funds. Income can be construed as a lump sum withdrawal, a pension withdrawal, with or without the deduction of a component representing return of capital (a few options here as well). There is also the treatment of income earned within the fund that is not withdrawn. The proposal in the last budget with respect to include gross income from retirement income streams for the means test for the CSHC illustrates the problem.

In short, the profiling of tax versus level of income has been corrupted by the growing level of super, and its increasing separation from normal taxable income such as wages and directly held investments, such as bank accounts, shares and property. I have reservations about the ABS income surveys and the other survey data for the same reasons.

Super - discussion and policy options

Super is still incredibly complex and it comes with considerable administrative costs. Many retirees will have a part age pension and the means test will act like a tax. Their relationship with Centrelink will be quite different to that with the ATO. Most retirees don't pay tax now and most will not pay tax in the coming years. There is no upper limit on withdrawals from super over 65 (although there are restrictions on contributions and recontributions). There is no minimum withdrawal in the accumulation phase, and the minimum withdrawal requirement in the pension phase is modest.

The Government could consider simplification of the Centrelink means tests and taxation for people over 65. Some integration of pension, means test and taxation should be possible in retirement for people who meet age pension residency requirements. Policy development could also allow for the removal of the need for investments to be held in a super fund. Much hinges on the definition of incomes and assets and how they are taxed or means tested and over what period.

I view accumulation super as another financial asset that is in a government controlled silo. I view a deductible contribution (or salary sacrifice or the compulsory 9%) to super as an amount of income that is taxed going into super at 15% and that may be taxed directly or indirectly coming out of super. The exit tax is currently nil if over 60, but it may be taxed at death depending on the status of the beneficiaries. I view earnings in the fund as another amount of income that accrues each year and is taxed each year at 15% on income and 10% on capital gain with exit tax as per deductible contributions. When retirement is many years away, one expects some concession for locking up the asset. The period just before or during retirement is quite different.

The deductible contribution could be considered as income in the year that it is earned and it could be added to taxable income in that year. This would maintain the progressivity of the individual tax scales. The last budget contained proposals to add salary sacrificed super to taxable income to determine income for some means tested benefits. This appears to conceptually acknowledge that super contributions beyond the standard 9% are in fact income in the current year. This seems reasonable for contributions in the year before retirement. When it is contributed a long time before retirement, one might argue that this justifies concessional treatment. On the other hand, if the standard 9% provides a basic retirement income, should we have super with its concessions, restrictions and complexity for additional voluntary saving?

The government wants to retain the tax free payouts for super. Given no change on that position, I suggest consideration be given to scrapping the death taxes and the anti-detriment arrangements.

Another change that may be feasible for super fund administrators is to change the tax on earnings in the fund. The current 15%/10% in the accumulation phase could be increased, and the nil rate in the pension phase could be increased. It is likely that such changes would need to be independent of the person's age for administrative reasons. Such changes would depend on policy direction on tax and Centrelink means tests.

Comments above about the loss of progressivity with super may be tempered by the progressivity of personal income tax and means tests. The regime could continue to be different for different age groups. See discussion elsewhere about the basic tax scale.

Some people have a retirement income stream from an untaxed source of super that was based on a lump sum that had been subject to 15% tax, ie the gross income stream has been reduced by the 15% tax. In the absence of any other offsetting changes, I suggest that the 10% tax offset for retirement income streams from an untaxed source be changed to 15%. This would provide the same concession as applies to retirement income streams from a taxed source of super. I am not aware of any public disclosure by the previous government as to why the figure of 10% was chosen for this particular offset.

Some people are on a part age pension with private taxable income such as a retirement income stream from an untaxed source or investment income from outside super, where the person cannot get it into super because they are over 75 or cannot meet the work test over 65. The effective marginal rate of tax can be around 50 cents in the dollar and that is after the age pension means test. The combination including the age pension means test is around 70 cents in the dollar. The current Treasurer had indicated in Opposition that marginal rates should not exceed 50%. It has been indicated that higher rates are alright over small income ranges. I think the Government should indicate a range limit as an objective for policy reform. These rates occur over a wide range where the age pension means test interacts with ordinary tax plus the tapers for the Senior Australian Tax Offset, the low income tax offset and possibly the Medicare low income threshold.

Some options for tax reform for retirees, assuming no changes to age pension etc include changes to the effective tax scales for retirees, and/or making the age pension a tax free payment.

Finally, taxfree super in the form of a retirement income stream may be partly counted as SNI and affect the DSTO of a spouse, ie the spouse may effectively pay tax on the taxfree super.

METO – need for new data and policy

Personal Tax Table 5D in ATO Taxation Statistics 2005/06 shows a total METO of $366,539,518 for 601,255 people. This is an average of $610 which represents average medical expenses of $4550. The median figures are probably considerably less and there will be a small number of people with extremely large expenses.

Medical expenses are associated with significant administrative costs to all sectors of the community. Individuals may receive support through the METO, Medicare, PBS and PHI. Some will also deal with workers compensation, transport accident insurance or special disability claims. It may be possible with new policies to eliminate METO.

People not paying tax receive no benefit from the METO. The impact of super on tax in retirement will impact the METO. There are also some groups of people or expenses that might deserve separate identification and consideration under other health and aged care policy measures. Examples include payment for residential aged care, people with very large expenses over one or two years, people with ongoing expenses for a disability or chronic health condition.

If METO is retained, I suggest the following changes. METO is a tax offset of 20% of expenses in excess of $1500. The expenses may be incurred on behalf of a dependent but must be paid by the claimant and receipted to the claimant. This can cause difficulties because of restrictions imposed by service providers, commonly because of computer software that can only provide a receipt to the patient. Splitting claims with other family members means multiple $1500 thresholds at a loss of $300 a person and some members may not have tax liability, eg a child. This could be avoided by allowing one member of the family to claim for expenses paid for or receipted to dependents. This would be similar to other sharing arrangements like FTB.

There are also requirements that centre on the role of doctors and pharmacies. Claims may require a specific reference for therapeutic treatment from a doctor or a prescription that is only needed for tax purposes. Some drugs come off prescription, so the doctor has no need to write a script except to support a patients tax claim. Some items can only be claimed from a pharmacy, although price and convenience may lead one to purchase elsewhere. These rules should be amended to reflect real life.

Pharmaceutical benefits

The following is tentative based on data I have seen on the Government websites and from some other sources. The Government could provide relevant data. Most of the benefits are paid to Concessional patients with payments biased to older age groups, particularly those over 50. Most people in the older age groups, particularly over 65 have health care cards. Most people don’t go far over the Concessional or General caps. It may be feasible to move to a universal system where General and Concessional are merged and possibly not capped. This would remove the need for health care cards. The Medicare card would prove residency like it does already. Future demographic and health trends would also need to be considered.

Basic tax scale and LITO

There is a bipartisan policy of increasing the LITO and keeping the taxfree threshold fixed at $6,000. If this trend continues, the taxfree threshold will be replaced by the LITO. The DSTO is indexed but may be subject to further one off increases such as occurred last year. For most single people aged between 25 and 55, who are not on Centrelink benefits, the tax rate for 2008/09 including LITO is nil to $14,000, 15% to $30,000, 19% to $34,000, 34% to $60,000, 30% to $80,000, 40% to $180,000 and then 45%. Most of them would have an income over $34,000 and the standard tax rate is arguably 34%.

Some people, particularly near retirement, might also be conscious of the 4% taper rate for the super co-contribution.

What are the implications of absorbing the LITO into the standard tax scale, aside from more bipartisan transparency from the government and less talk of the meaningless standard rate of 30 cents in the dollar?

The tax scale for a single person as above can be put in a chart and it is apparent that the scale approximates a large taxfree threshold followed by a straight line. Given that few people earn above $180,000 and their income can be reduced by up to $50,000 going into super, very few people are on the top rate of 45%.

People on a part age pension paying no income tax face a 40% taper under the income test although income is measured many different ways. The taper rate for the assets test is 3.9% which equates to a notional 39% taper rate if the assets were earning 10% per annum and a higher taper rate if the return was less.

This suggests a flat rate of about 35% across most full time incomes with minimal tax below $30,000 or so.

Most single people who are not on welfare and not dependent on another person will earn an income to support themselves, unless they are between jobs living off savings, ie capital as opposed to income. Given the minimum full time wage is about $28,000 and the cutoff income for New Start Allowance for a single without dependents is about $22,000, a flat rate from around $30,000 is reasonable.

The more difficult policy area is at the bottom, particularly for the people who are not part of the welfare to work group, ie the one income or one and a half income couple. Some people have also expressed that a high taxfree threshold (or effective threshold with LITO) allows tax to be reduced through family business arrangements. That may be true but it would also apply to a lesser extent with the 15% tax rate.

Retired couples with unequal taxable incomes

Retirees (both eligible for SATO) with unequal taxable incomes can be disadvantaged by the current arrangement. Tax above the $6,000 taxfree threshold is reduced by the SATO before using the LITO. This reduces the available SATO for transfer from a low income member of a couple to the high income member. The increase in the effective taxfree threshold by the LITO from $6,000 to $14,000, ie $8,000 is the penalty. If the high income earner pays tax, there is a penalty of up to $1,000 (ie the 12.5% taper on SATO) from this affect alone. The EMTR for a low income member of a couple in this situation is 27.5% immediately above the $6,000 threshold (ie the 15% tax rate plus the 12.5% SATO threshold). The 25% taper in SNI for the DSTO ($2100 in 2008/09) is added to this for the relevant taper range. There may be other examples where LITO operates differently to an increase in the $6,000 tax free threshold. Add Centrelink and you can see the incentive for some people to have funds in an account based pension. The SATO has not been increased since circa 2001. The increases in the retirees effective tax free threshold since then are due to the increase in the LITO and the reduction of the bottom tax rate from 20% to 15%. The trends mentioned in this para will increase the bias against unequal taxable incomes for retirees**.** What options are suggested to stop and reverse this situation? Many retiree couples do not, or will not, have a tax problem related to unequal incomes.

Medicare levy

The Medicare levy has several low income thresholds with tapers based on being single, or member of a couple, and the number of children, and receipt of SATO, the pension offset or neither. A few people are also exempt for various reasons. The levy is the last item calculated in assessing income tax, so some people can reduce their tax with SATO etc but still have to lodge a return and pay the levy. The levy forms part of general revenue and has no direct link with Medicare expenditure. Why not absorb the Medicare levy into the basic income tax rates, and what are the implications? The middle income rate including the LITO and the Medicare levy is 35.5%. It would remove a lot of legislation, some pages in the Tax Pack etc.

Medicare Surcharge and PHI rebate

I believe we need a public debate on the role of health insurance and whether it should be provided by a government monopoly, ie Medicare or by multiple competitors as now. If it is a government monopoly, it could be funded by premiums or taxes. If the current private funds continue, then there should be debate on what services are covered and the nature of the coverage, eg front end deductible etc and the relationship between Medicare and PHI.

PHI currently covers services generally not provided by government. It is not obvious why PHI should be subsidized for these or why insurance should be permitted, noting that private insurance cannot be offered for some services already. There may be a need for policies that address catastrophic expenses, but a PHI rebate for spectacles is debatable. I don’t seek insurance or a subsidy for car services.

There are some services covered by PHI that should perhaps be covered by Medicare while it continues in its current form. One example is private dental surgery.

An inpatient in a public hospital can be treated as a public or private patient. They are usually a private patient in a private hospital but not always. It is likely that services will continue to be provided by both the public and private sectors and the real issues are funding and insurance.

The typical bill from a doctor treating a private patient might be around 150% of the schedule fee. Medicare will pay 75% of the schedule fee. PHI must pay the next 25% and on average might pay a further 25% as part of a no gap or known gap arrangement, and the patient will pay the remaining 25% which may then be eligible for METO. Why isn't there a similar arrangement for hospital accommodation and facilities for a private patient? There could be a Medicare item with reimbursement from Medicare to PHI. The PHI rebate and current policy settings will fail in the long term and neither side of politics seems prepared to grapple with the issues in a way that produces a sustainable outcome that is acceptable to middle Australia.

Taxation and benefits for couples with and without children

Adjustments to the bottom of the tax scale, often refer to welfare to work issues where welfare means benefits with activity tests to look for work or study. If these are left out, a major issue for people aged 25 to 55 is taxation of couples both with and without dependent children.

The interaction of the tax scale with DSTO, FTB Parts and B, CCB and CCTO is complex and all are subject to complex means testing. CCB and CCTO relate to paid childcare. FTB Part B and DSTO are mutually exclusive. FTB Part B derives in part from the old DSTO with children and can be seen to provide support for childcare at home as well as overlapping DSTO which provides a benefit to a couple where one member has little or no income. The means test on DSTO and FTB Part B means that the effective marginal tax rate may be 20% or much more, even above that of the main income earner. The term "non-working wives" is often used, but these means tests refer to income and do not distinguish between income from work and investment. FTB Part A provides general support for children and can extend to age 25. FTB Part B can extend to age 18. The difference in the sum of these payments in relation to childcare may not be that large.

Is there scope for a restructured FTB with one payment that covers paid childcare and childcare at home, with payment biased to very young children and a second payment that provides general support for children? FTB Part B may be paid until a full time secondary student is nearly 19. If FTB Part B is retained, should that age be reduced dramatically, given the independence of children by that age? Some may even have a car licence by then**.** What would the budgetary impact be?

Personal Tax Table 5D in ATO Taxation Statistics 2005/06 shows 352,215 people received some DSTO. Most of them are on low to middle taxable incomes. What is their age profile? FTB Part B is paid through Centrelink and the ATO. How many people get FTB Part B where the youngest child is 13-15 or 16-18?

What is the purpose of support for low income partners? Why should a high income man get DSTO for a wife with no income and no children? Should DSTO and part of FTB Part B be combined? This is the issue of the interplay of the unit of taxation for a couple, and possibly children, with a progressive tax scale. There is also an overlap between FTB Part A, school funding, and the new school expense tax offset. A lot of parents have significant expenses, even at free Government schools. Why wasn't FTB Part A increased instead of the new school expense tax offset? Finally, some of these benefits are assessed on joint income and some transfer between partners may occur. The other complication is with split families. The thresholds and taper rate differ between DSTO and FTB Part B. Why, besides history? Both provide a disincentive to part time work.

YA and young adults

YA may be paid to full time students from 16 until they turn 25 and to unemployed youth from 15 until they turn 21. There is a complex overlap with FTB Part A and there is some similarity between the YA and FTB payments and means tests. YA also requires much more contact with Centrelink than FTB that appears unjustified for a full time secondary student. Why not replace YA with FTB for full time secondary students? Youth moving from secondary school to independent adulthood take numerous pathways that may include work, study, apprenticeship and overseas travel, with varying degrees of support from parents. The tax and benefit rules affecting youth and their parents during this transition could be simplified.

SNI

SNI is another bit of history. It is complex and unknown to many people. It is not the same as taxable income and it has various items included or excluded by legislation. It is used for means testing dependents for the DSTO, dependent children for the Medicare levy and the METO? Why not replace it with taxable income? It has been subject to change for 2007/08 in relation to retirement income streams because of simpler super and will probably see more change in 2009/20.

Zone Allowance

The Zone Allowance for Zone B is very small and includes many major regional centres on the QLD coast such as Cairns and Townsville. If there is a need for a subsidy, it should be delivered in some other way. Although the allowance for Zone A is larger, I think the same should also apply. The DSTO is also increased by 20% for Zone B or 50% for Zone A. I believe the DSTO tapers out over the same SNI range but with increased taper rates meaning increased disincentives. The maximum DSTO without child is $2100 for 2007/08.

Stamp duty when buying a home

Stamp duty when buying a home is an acknowledged issue in the community. How many retirees move or wish to move when they retire, when the children leave home, when their health changes, or some other family situation arises? Each move can cost 10% of the value of the property in transaction costs. A new unit may cost the same as an old house, so concepts of downsizing etc can be irrelevant. A reduction in stamp duty would give individuals more real choice, and would probably provide economic and environmental benefits to the community.

This submission is primarily about the aged pension and related benefits. While some of this submission is relevant to recipients of the disability support pension and the carers payment, the background paper shows distinctly different profiles for housing and living arrangements and financial wellbeing, compared with age pension recipients.

Some tax and pension issues are linked and I intend to make additional comments on pensions and other benefits in a separate submission to the tax review. In particular, comments on Parenting Payment, family assistance payments and Youth Allowance are better left to the tax review.

Some additional data would help in making submissions on the tax and transfer payments systems. It would also add to public transparency. A major concern is super. Most super income for people over 60 will disappear from the ATO Taxation Statistics for individuals after next years publication and it is not clear from public data if much tax will be collected from people over 65. Before the current market downturn, total annual profits for super funds were around $100 billion. Many of the funds are held by people over 55 and the foregone tax with normal growth and investment income will eventually exceed the cost of age pensions.

The massive and increasing complexity and administrative burden in the tax and transfer payments systems point to systemic issues with the development of policy in this area. It affects all sectors of the economy including ordinary households and many of the issues are well documented by an army of researchers. The issues are magnified by the role and interaction of the three levels of government.

The immediate issue of the single aged pension

After the Senate inquiry last year, I thought the May 2009 Budget would include a significant increase in the single pension. The inquiry provided plenty of evidence and there appeared to be a broad consensus for action. I was even more surprised by the moral indignation of the Opposition, given that basic policy settings appear to be the same as those put in place with the GST package. The Government has the money, and if it wishes to make a revenue neutral change for macro-economic reasons, spending priorities can be changed. Significant long term changes probably cannot be implemented until the May 2010 budget after the final report of the tax review in December 2009. However, strong arguments have been made for immediate relief for single pensioners and some others.

The background paper (2.1.4) discusses budget standards developed by UNSW and the data (Chart 8) implies that for homeowners the single pension needed to be increased by around 20% in 1997 and in 2008. This would support lifting the single rate from 60% to 72% of the couple rate, unless the couple rate was reduced (no support for that). The data allowed for price changes but did not allow for any change in community living standards. This is a problem, because standards do change, and this is recognised by Government, with its MTAWE indexation of pensions, its recent Internet subsidy for pensioners and many other examples. Many basic services have a wage based cost structure which flows through to prices. This is to be expected in a service based economy. Examples are local Council rates, and health and aged care services. Over various timescales, we have had the rise of the motor car and other forms of travel, mobile phones and the Internet, and new medical technology. The Westpac-ASFA Retirement Standard provides detail on cost of living for comfortable and modest lifestyles for couples and single females. The modest lifestyle totals were $27,151 and $19,399. These figures are consistent with a rise in the single pension to about 70% of the couple rate.

The background paper (2.1.7) refers to FaHCSIA analysis using 14 different approaches to estimate equivalence between couple and single person households that ranged from 0.6 to 0.79. The background paper (3.3.4) also notes that single people have different living arrangements that have some bearing on costs, but also states that data is not easily available from administrative sources (nor should it be). It then shows ABS figures (Table 10) with 73.7% of single Age Pension and related recipients live by themselves in 2005-06. I would recommend that the single Age Pension be based on the assumption that they all live by themselves.

The background paper (Appendix 1) uses equivalised income for several tables and charts. It uses the modified OECD scale where the weighting for a household with one adult is 1 and two adults is 1.5, which implies that the single pension should be 67% of the couple pension (assuming no other payments or benefits). It also implies that around 33% of the couple rate (using couples as a benchmark) is required for household related costs. Some of these are fixed per household, and some vary slightly between singles and couples. At current rates, these costs would then be around $8,000 a year and include utilities, rates, insurance, household maintenance and repairs and minimal costs for one car (or other substitute transport). The base pension does not allow for significant costs of a capital nature.

Other issues

The tax and pension reviews should address well known generational issues including the increase in superannuation in the broader community, longer life expectancies and aged care.

There are difficult issues around housing. The level of rent assistance and the difference in the assets test between homeowners and non-homeowners for pensioners do not reflect the changes over the last decade in house prices and rents, or the diversity across different locations. The capital cost of residential aged care and transaction costs for buying or selling a home are other issues. Is it desirable that both the pension and tax systems are biased against rental?

Many concessions can be put in the following groups - council rates, utilities, health, transport, and aged care.

There are concessions for utilities in the form of reduced charges or the Centrelink allowances for telephone and Internet subscribers. There is also a utilities allowance and seniors concession allowance that were introduced to help with these costs but they are not tied payments. Most pensioners pay for electricity and water. Many pay for gas in particular locations. If they don’t pay Council rates, the cost is likely to be embedded in their rent or accommodation charge. The individual concessions on a single bill, eg a quarterly bill for electricity, may be quite small. They may also be low enough that most recipients in a particular region get the full concession. The administrative burden is high for small payments and input should be sought from some service providers. Consideration should be given to replacing some of these concessions with an increase in the pension payment or the utilities allowance. This would require the agreement of the States and Territories and variations between them is an issue that would need to be addressed.

The PBS has general and concessional patients, each with safety nets. The Government pays around 80% of the cost of PBS prescriptions and more than 50% of the scripts are for people over 65. Some patient costs are then claimed on tax, or private health insurance and other sources. The system needs reform. I am not against universal benefits and that may be appropriate for the PBS. However, under the current arrangements, the CSHC is an inequitable anomaly. The adjusted taxable income is a problem (see below) and the income levels are very generous compared with the limits for the Low Income HCC for people under 65, which in annual terms are less than half those of the CSHC. If the limits for the CSHC had been indexed from 2001 in line with the age pension, they would now be around $75,000 for a single and $120,000 for a couple.

A similar argument applies to the Seniors Concession Allowance. I can see an argument for a universal age pension as part of future joint reform of tax and pensions. If people do not get the age pension at present, because they exceed the means test limits, why should they get a payment (tax free) when people under 65 with less income get no benefit in cash or in concessions?

The sudden loss of benefits when the means test is exceeded is undesirable. The total amount may be quite significant. Where possible, these benefits should be absorbed into the base pension and the taper rates. This proposal goes beyond the utilities concessions. The pharmaceutical allowance should be absorbed. Reform of the PBS could address this issue as well.

The GST related pension supplement is now political history and it merely adds to the existing complexity. The background paper refers to it under indexation (Appendix E). It does not detail the current level, but mentions that it is CPI indexed, along with some other add-on payments. It should be absorbed into the base pension and the same indexation method should be used as for the base pension. Common indexation should also apply to add-on payments that continue to exist.

The issue of longevity risk needs to be addressed. Commercial insurance and annuity type products have not really evolved with significant market share. Individuals can opt to reduce living expenditure in order to conserve private assets to protect against longevity, but may not wish to, if they have limited assets. The minimum drawdown requirements for the popular account based pensions also hinder this strategy. People can downsize their home or take a reverse mortgage. The risk of needing capital for residential aged care compounds this issue. The alternative is age pension reform that provides specifically for longevity risk, eg for people over 80 or 85. This could be addressed with reform that acknowledges increasing levels of super.

The age pension is paid fortnightly and if circumstances change, assessment is effectively once per fortnight. This can be compared with the interaction people (or their tax agent) have with the ATO. Part of the need for these reporting arrangements stems from the complexity of the income and asset means tests. Frequent reporting impacts on both Centrelink and the recipient. I am not aware of any minimum threshold in the change in income that needs to be reported. The threshold for a change in assets is $1,000 which would change a pension by $39 pa or less.

The current means tests include the assets test and the income test. Income includes deemed income from financial investments as a percentage of the asset, ie it is actually a second asset test that is absorbed into the income test. There is real income in the normal commercial or tax sense such as property rental or wages. Then there is income from retirement income streams which is a moving feast with multiple definitions. Finally a small minority of people have their incomes adjusted to include fringe benefits etc. This is an issue for the tax system as well as for pensions.

The budget measure to include gross income from superannuation income streams from a taxed source in the income assessment for Commonwealth Seniors Health Card states:

"This measure will increase fairness by ensuring that, in applying the existing income test, all income received by seniors — whether from superannuation or another source such as a managed fund or interest from a bank account, is treated in the same way."

Really! I didn't know that putting money from my wallet into a bank account and withdrawing it the next day would turn my deposit into income. What do people put down as income in ABS Surveys on income?

See http://www.fahcsia.gov.au/internet/facsinternet.nsf/seniors/cshc_changes.htm for further information. It refers to treating lump sum withdrawals from super as income as well. Where is this going? Will it apply to means test for other benefits such as the age pension?

The draft minutes of the ATO Tax Practitioners Forum meeting of 8 August 2008 discuss the treatment of retirement income streams post 1 July 2007 because of "Simpler Super" with respect to "separate net income" in the tax system. They also reference the proposed changes from 1 July 2009 that were announced in the May 2008 Budget.

See http://www.ato.gov.au/taxprofessionals/content.asp?doc=/Content/00105964.htm for links to ATPF minutes.

I note that some pensions are tax free to the recipient, but are included in "separate net income" for the recipient. This can result in increased tax for the recipient's spouse.

The interaction of the age pension means tests with tax the tax system can result in very high effective marginal tax rates. Preferential treatment is also given to account based super pensions, something that I will leave to the tax submission.

One solution to minimising the interaction of the age pension and tax is to make the age pension tax free, ie non-assessable, non-exempt income, and excluded from DSTO and other means tests in tax or benefits systems.