



DEFENCE FORCE WELFARE ASSOCIATION

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Patron-in-Chief: His Excellency Mr Michael Bryce AM AE

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10 December 2008

The Secretary
Australia's Future Tax System
Treasury

Dear Rob,

We note from the 5 December joint statement of Mr Swan and Senator Sherry that your team has been asked to bring forward its consideration of the retirement income system and report by the end of March 2009 and "In particular the panel will make recommendations on the adequacy of retirement income arrangements and the appropriateness of the current taxation arrangements."

You may recall from our e-mails of late August that DFWA was concerned that taxation aspects of the various integrated military retirement, death and disability schemes had already been swept up in the 2006 *Better Super* reforms and were now outside the Terms of Reference of your current review. As a result, DFWA merely requested the opportunity to assist your team to look for any 'unintended consequences' of the eventual outcomes from your review, as they might impact on the military schemes.

It now appears that almost nothing with regard to the taxation of retirement incomes is outside the scope of the current review. Accordingly, DFWA makes the following comments for consideration when you prepare your recommendations.

Taxation Treatment of Military Schemes

The segregation of the current military retirement schemes – DFRB, DFRDB and MSBS – into "untaxed" schemes in the 2006 *Better Super* policy was artificial.

Military personnel had no say in the fact that Government convention from the 1960s and 70s, when their schemes were imposed on them, precluded the Government from paying tax to itself, thereby ensuring that in 2006 their schemes would be classified as "untaxed" and their pensions

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would be treated differently to pensions paid from other defined benefits schemes derived from 'taxed', eg company, funds. Had the Government paid tax to itself, the benefits received by military pensioners – ie the Government's nett expenditure - would have been exactly the same up to 2006 and, after that date, the pensions would have been tax-free in the hands of the military pensioners.

The measure adopted in *Better Super* to overcome part of that disadvantage – the 10% tax offset – was arbitrary and *ad hoc*, and led to further disadvantage.

Because military pensions are treated as taxable income in the hands of the military pensioner, any additional income is taxed at marginal rates, whereas pensions from 'taxed' funds do not enter into the tax equation. In most cases that additional disadvantage more than offsets any benefit the military pensioner might receive from the 10% tax offset in comparison with the 'taxed fund' pensioner.

Recommendations

The artificial segregation of military retirement, death and disability schemes into 'untaxed' schemes should be eliminated.

If that is not done then, at the very least, military pension income should be taxed quite separately from any other sources of income received by the pensioner.

In addition to any action taken on the above recommendations, the review team should be prepared to consult widely upon the impact on military retirement, death and disability schemes before finalising its recommendations.

Yours sincerely

A handwritten signature in black ink that reads "David Jamison". The signature is written in a cursive style with a large, prominent 'D' and 'J'.

David Jamison AM
National President