

Further to my email yesterday, and since I have not received a response to my request seeking an extension of the deadline for submissions, I am now setting out the main features of the submission (and still seeking some extension to permit further information to be placed before the inquiry at a later time).

In circumstances where there is a plan to review Australia's tax system to introduce greater equity and simplicity, and where it is essential to preserve the concept of responsible retirement planning for all Australians, it is appropriate that the inquiry consider the circumstances of Australian retirees who receive pensions from IOs, and to reconsider the operation of the privileges and immunities that should be available under the Act. We believe that it would be appropriate and equitable to bring the tax treatment of IO pensions paid to Australian retirees into line with the tax treatment of other Australian retirees. In support of this contention, I submit the following considerations.

At a time when there is an emphasis on responsible retirement planning and, to the extent possible, workers should aim to provide as much self-funding of retirement needs, those who are employed by IOs, especially on a long-term basis, have usually made effective provision for their retirement income and, upon returning to Australia, would carry with them retirement plans that will ensure that they would not place any burden on the Australian superannuation system.

At the present time, with such IO pensions being fully taxable, there is an incentive for such Australian retirees to remain non-resident, and very little tax incentive to return home. This has the effect of depriving Australia of (i) contributions to the Australian economy in terms of spending and other tax contributions (GST; capital gains; State taxes; etc); and (ii) the repatriation of significant skills (often gained in senior positions in the global marketplace). Providing the incentive of better treatment of such pensions paid to Australian retirees would provide an enormous incentive for such senior individuals to return home to Australia. There is much anecdotal evidence that a significant number of retirees are electing to remain in locations where pensions do not attract the same rate as Australian tax. (For example, New Zealand, Canada, Denmark and a variety of other comparable member countries, and the majority of developing member countries do not tax IO pensions. Given the relatively small numbers of Australian IO pensioners, it is difficult to see that exemption of IO pensions would have a significant effect on fiscal revenues in Australia; especially when offset by other taxes and expenditure by those retirees who would take up the incentive to return to Australia if IO pensions were exempt from tax.

Clearly, the repatriation of such international skills would be in Australia's long-term interest; and would continue to encourage Australians to work in these IOs. Again this is in Australia's long-term interest (as Australia has voluntarily joined these IOs and has already acknowledged the privileges and immunities enjoyed, including immunity from taxation).

I have always considered that, in part due to the fact that Australia recognises that income and other emoluments earned by Australians working at IOs is exempt from tax, that perhaps the simplest way to put

this existing matter beyond doubt (and would not entail the same considerations perhaps as amending the Tax Act) would be to gazette a regulation under the Act that makes clear that a pension paid to Australian IO retiree in Australia would be exempt from tax, under the operation of the Act itself.

So, just as Australians derive a tax exempt income from IOs due to Australia's membership, and by operation of the Federal government's foreign affairs power, pensions paid to such individuals would derive the same exemption. This would have the effect of placing such IO pensioners in the same position as other Australian pensioners upon reaching 60 years of age: namely, a pension exempt from tax and no requirement to declare that pension on regular tax returns. Clearly, however, such IO pensioners would be filing tax returns in respect of income from all other Australian income and capital gains (as noted above).

Moreover, my impression is that the population of IO Australian pensioners is not large, so again the impact may be marginal for fiscal revenue.

As mentioned yesterday, and at the start of this email, I would be pleased to arrange for a more detailed, supported submission upon my return [removed for privacy reasons]; however, I hope that this email will be considered as a very brief, holding submission.

Regards

Bruce Purdue