

5 Bayview Rd.  
Frankston  
Victoria, 3199  
Tel: (03) 9783 3451

General Manager  
Superannuation, Retirement and Savings Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Sir/Madam,

I wish to make a submission in relation to the superannuation changes proposed for introduction from 1 Jul 07, as set out in the paper "A Plan to Simplify & Streamline Superannuation".

There are two aspects of the proposal on which I would like to make a submission, as follows:

1. Taxation of a pension paid from the Commonwealth Super Scheme (CSS)

It is proposed that superannuation pensions paid to retirees over the age of 60 would be tax free, except in the case of pensions paid from an untaxed source. It seems, from my reading of the paper, that CSS pension payments would be deemed to be from an untaxed source, as they are paid by the Federal Government out of general revenue. These pensions would be taxed at the recipient's marginal rate of tax less a 10% rebate.

The rationale for this proposal is expressed in the paper "A Plan to Simplify & Streamline Superannuation" as follows -

"In some superannuation schemes no employer contributions are made until a benefit becomes payable and no contributions or earnings tax is paid.

For equity reasons, people in these untaxed schemes would still have to pay tax when they take their benefits...."

I would like to address these "equity reasons".

The implication I draw is that the equity reasons are twofold:

1. the government has been denied taxation revenue (being the 15% tax on employer contributions and 15% tax on fund earnings), and so the eventual pension paid should not be entitled to the same tax free status as a pension from a fund that has contributed tax revenue to the government.
2. the pensioner receives a pension that is greater, as a result of the non payment of tax, than a like pensioner would receive from a taxed fund, and so it is equitable to provide greater tax relief to a pension received from a taxed fund.

Regarding the denial of taxation revenue to the government:

For most CSS pensioners, the employer is the Government, and the government has chosen not to make contributions to a fund, and then levy taxation on that fund. Rather it has preferred to use the money it would have been contributing to a fund, to contribute to general revenue. Effectively, it has granted itself exemption from setting funds aside, and so from paying tax to itself, as an administratively expedient option.

In the case of my employer (Telstra), there have been payments made over my career to the government (as the eventual payer of the employer financed pension) sufficient to fund my entitlement to a future pension, but the government has similarly chosen not to set this aside in a fund, but to use it as a contribution to general revenue.

In both cases, the government has had the use of the full amount of employer contributions it could have been setting aside in a fund to finance future CSS pensions. A taxed fund would have provided only 15% of contributions and earnings to general revenue, whereas the Commonwealth has had the use of 100% of contributions. The fact that there is nothing set aside to fund future pensions is an expression of the benefit the government has enjoyed over the years. Far from a detriment to taxation revenue, the government has benefited from the use of the funds it has failed to set aside.

Regarding the benefit to the pensioner from the non payment of tax:

When the CSS pension is taken as an age retirement benefit, the amount is defined as a percentage of final salary, depending on the age of the pensioner and the number of years of his/her membership in the scheme. The fact that the benefits are defined means that they are not dependant on growth in an amount set aside by the employer in a fund, and would not have been diminished by taxation of that amount. In other words, the pensioner does not benefit in any way from the non taxation of employer contributions.

When the CSS pension is taken as a deferred benefit as a result of the pensioner leaving the scheme before retirement age and deferring the pension benefit, the amount of the CSS pension is calculated as a factor of the member's own accumulated contributions, which HAVE been set aside in a fund administered by ComSuper, and which have been taxed!!

In this instance, the amount of pension paid has been reduced as a result of the taxation of the fund in which the member's own contributions have accumulated.

It is an incorrect premise that a CSS pension is greater than it would have been if employer contributions had been paid into a taxed fund – in the instance of a pension taken as an age retirement, the pension amount is unaffected by taxation, and in the instance of a pension taken as a deferred benefit, the pension has been diminished by taxation of both contributions and accumulated earnings.

**Consequently, I don't believe there are any valid "equity reasons" to justify taxing CSS pensions more than pensions paid from a taxed fund.**

**The Government has not been denied taxation revenue, and the pensioner has not gained a higher pension benefit through the lack of taxation.**

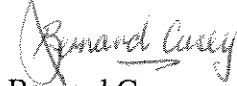
2. Taxation of Superannuation benefits paid to the estate of a deceased beneficiary.

The tax free nature of superannuation lump sums taken after the age of 60 does not extend to the payment of a benefit to the estate of a deceased superannuant. This means that the (non dependant) beneficiaries of the will of any superannuant with a lump sum balance remaining in his or her account at death, would be penalised relative to any similar superannuant who withdrew their balance just prior to death.

This is an anomaly. It is also a death tax pure and simple - taxation of an amount of an estate, which would not have been taxable, except as a consequence of the death.

I would appreciate it if you would consider these comments, and I would also appreciate a response containing the Treasury Department's views in relation to the validity of the arguments, for both issues.

Yours faithfully,



Bernard Casey.

16 May 2006