Police Federation of Australia
The National Voice of Policing

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Committee Secretary
Senate Economics Committee
Parliament House
CANBERRA ACT 2600

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Dear Committee Members

INCOME TAX RATES AMENDMENT (TEMPORARY FLOOD RECONSTRUCTION LEVY) BILL 2011
POLICE FEDERATION OF AUSTRALIA SUBMISSION

The Police Federation of Australia (PFA) represents the interests of Australia's 55,000 police officers in all jurisdictions across the nation. As you would be aware, our members have been on the front line of every one of the natural disasters that has so dramatically affected south east and north Queensland, north western Victoria, Perth and elsewhere through the summer of 2010 and 2011. Police and other emergency service workers and volunteers have worked tirelessly to protect life and property throughout these natural disasters.

The PFA supports the reconstruction efforts of the Commonwealth and the respective State and local governments.

However we are alarmed to read in the press that the levy will affect people retiring and drawing on their superannuation savings during the twelve months during which the levy applies. The example that has come to our attention is that of a 57 year old NSW police officer who after 30 years of service is retiring next year. It is reported that he will lose $6,590 of his superannuation lump sum payment of $698,038 as a result of the flood levy (see attached article from *The Australian*, 11 February 2011).

I note that although the example in the story is a police officer, all workers retiring in the year in which the levy applies could be affected adversely. We understand that it will also affect any lump sum payments such as long service leave and annual leave payments for anyone who retires or loses their job during the financial year in question.

We have been advised, in relation to redundancy payments, as follows:

> 'A genuine redundancy payment is a lump sum payment received by an employee who is dismissed from their job because their position has been made genuinely redundant. A golden handshake on the other hand can be made to former employees where their position is not made redundant.
>
> A "genuine redundancy" is the amount of payment in excess of what could be reasonably expected to be received by the employee in consequence of the termination of their job.
>
> Genuine redundancy payments are not included as taxable income and instead taxed (generally concessionally) in a specific way. The first portion of the redundancy payment is tax free with the amount in excess of that also treated concessionally, but only up to a specified amount which is indexed each year. For large redundancy payments, the amount in excess of the specified amount does not receive the same concessions.
>
> The flood and cyclone reconstruction levy is applied to an individual's taxable income and because genuine redundancy payments are not considered taxable income (within the limits), the flood levy is not applied to a genuine redundancy payment.'

However, we remain concerned about those taking superannuation lump sums and people receiving payments such as long service and annual leave entitlements which would see them having an unusually, higher-than-normal income for taxation purposes in the financial year 2011-2012.

We can only assume that these are unintended consequences and that the Gillard Labor Government would not have meant to cut the retirement savings and other benefits of workers through this levy. This seems to be confirmed by Ministerial references to the levy amounting to around a cup of coffee a week for the average worker. In addition, the Government is actively working to increase the retirement incomes of working families with the move to boost the superannuation guarantee from 9 to 12% amongst other improvements to super that are underway. Hitting workers' retirement savings and other employment benefits is not consistent with the positive things the Government is doing on superannuation and fair work provisions.

To overcome these problems, the PFA proposes that the Income Tax Rates Amendment (Temporary Flood Reconstruction Levy) Bill 2011 be amended so that superannuation lump sums, and other non-salary worker entitlements and benefits are not affected by the levy.

We would be prepared to give evidence to the Committee if that is appropriate.

Yours sincerely

Mark Burgess
Chief Executive Officer

Attachment

Cc: The Hon Wayne Swan, Treasurer
The Hon Bill Shorten, Minister for Financial Services and Superannuation

SUPERANNUATION

Retirees face large slug on lump-sum payments

LANAI VASEK
JOE KELLY

OLDER Australians planning their retirement next year could be forced to pay thousands of dollars in tax on superannuation payouts as a result of Labor's $1.8 billion flood levy.

Payments would apply to retirees between the ages of 55 and 60 who receive their superannuation in a lump sum.

It will also hit those who are on transitional employment and receive part of their superannuation as a pension to supplement their salary.

Revelations of the loophole in Labor's flood levy came as the opposition launched an attack in question time on Julia Gillard, presenting the Prime Minister with the story of a police officer retiring next year who will pay an extra $6590 in tax on his super lump sum payment of $698,038 due to the flood levy.

The 57-year-old policeman — who has worked with the NSW police force for more than 30 years and has a wife and two children — wrote to his local member, Russell Matheson, who represents the marginal western Sydney electorate of Macarthur, on Tuesday to express his anger over Labor's levy.

"Should this additional tax be introduced in the manner currently being reported, I believe I and probably many others like me will be penalised as a result of choosing the wrong year to retire," he said.

In question time yesterday, Ms Gillard said the way the levy was structured was "the right thing to do".

"That is how we structure burdens in our society," she said. "We structure burdens on the basis that people who have the capacity to pay more, should pay more."

Lump-sum superannuation payments for over 60s are not taxed, and a person who was doing a transition to retirement pension, in a way that reduced their taxable income below $50,000, would not pay any levy.

Opposition Treasury spokesman Joe Hockey said yesterday's disclosure revealed that Labor's claim the flood levy would cost Australians only a cup of coffee a week was "in tatters".