

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Finance and Administration Portfolio

ComSuper

Budget Estimates Hearing – May 2007

Question: F32

Outcome 1, Output 1

Topic: Impact of Proportioning

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Senator Sherry asked:

After 1 July 2007 it is claimed that, due to the impact of the proportioning rule, the pre 1 July 1999 undeducted contributions are not used up first in assembling the payment; rather, a smaller proportion of the undeducted amount is included in any lump sum payment. Apparently, the claim is that this leads to a higher rate of tax being imposed on the lump sum that is paid. That is the claim.

I have a couple of questions on that proportioning rule and the impact on hypothetical lump sum amounts pre and post the changes which I will put on notice. I will put them on notice because I would not expect you to provide a detailed response here and now.

Answer:

From 1 July 2007 proportioning rules will NOT affect members of **MilitarySuper** who access their entire benefit. However, the proportioning rules will affect members of **MilitarySuper** who access part of their benefit. Any part payment will include both tax-free and taxable components in the same proportions as exist in their total benefit.

Before 1 July 2007, there was no law on which components should be paid first. **MilitarySuper** made partial benefit payments in the most tax advantageous way for the member.

From 1 July 2007, the proportioning rules will not affect **DFRDB** members and the current rules for applying a tax-free amount to member's benefit (both commutations and retirement pay) will continue as before. The choice is up to the member.

A **DFRDB** member will have exactly the same tax treatment applied to their benefit payment prior to and after on or after 1 July 2007.