Question: F32 A

Outcome 1, Output 1

Topic: Taxation of MilitarySuper benefits

Written Question on Notice

Senator Sherry asked:

PART A

1.   Will a 45 year old member of MilitarySuper (who transferred from the DRFDB scheme when MilitarySuper was established) with 24 years continuous service and resigns from the ADF on 1 June 2007 be taxed more on a partial lump sum benefit payment if he instead resigned soon after 1 July 2007?

2.   Assume he immediately takes his SIS Upper Limit. If his member benefit was $160,000 and his SIS Upper Limit was $70,000 how much tax would he pay when he resigns on 1 June 2007 and how much would he then have to pay at preservation age under the current applying legislation and regulations. How much would he have to pay when he resigns after 1 July 2007 and how much would he then have to pay at preservation age under the legislation and regulations that come into force on 1 July 2007?

3.   Assume he successfully makes a claim under specified grounds of $10,000 for the treatment of a sick child, If his member benefit was $160,000 how much tax would he pay before 1 July 2007 and how much would he then have to pay at preservation age under the current applying legislation and regulations. How much tax would he have to pay after 1 July 2007 and how much would he then have to pay at preservation age under the legislation and regulations that come into force on 1 July 2007?

PART B

1.   Will a 45 year old member of MilitarySuper (who transferred from the DRFDB scheme when MilitarySuper was established) with 24 years continuous service and is medically discharged from the ADF on 1 June 2007 but does not qualify for a military disability pension be taxed more on his partial lump sum benefit if he instead was discharged soon after 1 July 2007.

2.   Assume he immediately takes his SIS Upper Limit. If his member benefit was $160,000 and his SIS Upper Limit was $70,000 how much tax would he pay when he is discharged on 1 June 2007 and how much would he have to pay at preservation age under the current applying legislation and regulations. How much would he have to

pay when he is discharged after 1 July 2007 and how much would he then have to pay at preservation age under the legislation and regulations that come into force on 1 July 2007?

3.   Assume he successfully makes a claim under specified grounds of $10,000 for his medical treatment. If his member benefit was $160,000 how much tax would he pay before 1 July 2007 and how much would he then have to pay at preservation age under the current applying legislation and regulations. How much tax would he have to pay after 1 July 2007 and how much would he then have to pay at preservation age under the legislation and regulations that come into force on 1 July 2007?

Answer:

PART A

This question does not contain sufficient information to provide an accurate response without making several assumptions. The impact on members of Military Schemes will depend on the individual circumstances of the member, the composition of their underlying superannuation interests in the scheme and the benefit choices the member makes on reaching preservation age.

The MilitarySuper website, www.militarysuper.gov.au, contains several examples including relevant assumptions that describe how the changes apply to members.

However, in general terms, 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.

Under the proportioning rule, the components of a superannuation benefit payment (the tax free component and taxable component) must be in the same proportion as the components of the underlying superannuation interest. That is, for example, undeducted contributions within a superannuation interest are unable to be used up first when paying a benefit. This applies to all superannuation arrangements from 1 July 2007.

However, in recognition that the tax on superannuation has been reduced for people receiving benefits from taxed sources, tax has also been reduced on benefits paid from untaxed sources for people aged 60 and above. The 30 per cent rate of tax on lump sums has been reduced to 15 per cent for amounts up to $1,000,000, with any excess taxed at the top marginal tax rate.

Pensions received from an untaxed source are taxed at marginal rates, but receive a tax offset of 10 per cent of the total taxable part of the pension. Previously, such pensions were taxed at the individual's marginal rate with no offset.

It does not matter when an individual commenced their pension for them to benefit from these changes. From 1 July 2007, as long as they are aged 60 or over they now receive the benefit of the changes outlined above.

In addition, under the Government's superannuation reforms, a member's own (after-tax) contributions to superannuation continue to be received tax free in retirement. Also, from 1 July 2007, any benefits paid from Military Schemes that have been taxed in the fund (such as earnings) are also tax free when paid to a person aged 60 and over.

Part B

This member will be treated in the same way as the member in Part A. The fact that the member was medically discharged does not alter the situation.