

From: Patricia Graham

Sent: Monday, 15 January 2007 2:35 PM

To: Economics, Committee (SEN)

Subject: Submission to the Senate Economics Committee

----- Original Message -----

From John Graham

To Patricia Graham

Sent: Monday, January 15, 2007 2:15 PM

Subject: The Hon Peter Costello.doc

Mr Peter Hallahan

Committee Secretary

Senate Economics Committee

Economics.sen@aph.gov.au

Dear Mr Hallahan,

In the letter, enclosed, that the Treasurer wrote to Phillip Ruddock, in reply to a representation by one of his constituents, it seems that you have been poorly advised on a number of Issues on aspects of the Defence Force Retirements Fund, and Defence Force Retirements and Death Fund (DFRB/DFRDB).

The Treasurer has stated a principle reason for treating Public Sector Superannuants differently to others, is that "**this would be an unfair advantage to members of those funds" (ie Public Sector funds)" as they have not paid the Contributions and Earnings taxes that 90% of Australians have paid on their benefits"**

This is an incorrect concept: Taxation on these elements was only introduced 'post 1988'. **From 1948 to 1988, both Public and Private sector funds, for taxation purposes, were treated in exactly the same manner.** Even though there was no DFRB fund post 1972. Effectively, those who were discharged up to the date of introduction of those taxes do not come into your definition that all Public Sector superannuants had an 'advantage'.

Indeed the Private Sector funds had the advantage of their funds being invested, tax free, up to 1988, whilst the Public sector funds were applied to the Governments spending plans (or at least, DFRB/DFRDB 'Funds'!

Admission to the DFRDB was not allowed to new members after the introduction of MSBS, in 1991. Thus, there are relatively few who can be claimed to have escaped paying the taxes that the Private Sector paid between 1988 and 1991.

To deny the benefits **to the whole of the community**, for this relatively small number of Defence personnel, is morally unjust. I believe that the Treasurer had been incorrectly advised on this matter.

The reasons for Public Sector Superannuation funds being classified as 'unfunded' are because the government failed to meet its share until the contributor was discharged. However the superannuants now have to suffer a further discriminatory measure, in this proposed legislation. What a disgrace. The funds were used by the Government for their own

purposes. In the DFRB scheme, at least the fund received interest from the investment in Government bonds. Under DFRDB, the total assets had been appropriated and used as general revenue, with contributors having no say in the matter, or the ability to opt out of the scheme for another. It was a grab for money by the Government of the day, and continued to be so.

The legislators had no idea that this Superannuation taxation reform would be down the line, and the anomaly now exposed should be considered an unintended consequence, and rectified.

Should a veteran of the Korean War era accept that he should now miss out on a tax exemption because the Treasurer considers he didn't pay for his Superannuation or non-existent taxes on his contributions and fund earnings? He did pay income tax on his contributions, so **why should he be treated differently to his Private Sector peers who also were not subjected to taxation on their contributions and fund earnings prior to 1988?**

On the question of the funds being declared 'non funded' this was only of advantage to the Government and gave further disadvantage to the funds: by the Government not making its contributions, during the members' service Thus, the funds had a lesser amount to invest, with a lesser profit outcome than should have been, to the fund. However, the Liberal Government of the time appropriated the assets of the DFRB Fund, and Gough Whitlam misappropriated them.

The new Parliamentary Pension Scheme has been set up as 'Funded' to allow them a future tax free retirement income How is it that this principle has not been extended to the Government's own employees...perhaps another case of one rule for politicians, and another for the electors?

I understand that Bruce Bilson, last year, expressed , in writing, his reservations in this matter to the Treasurer.

I feel it is essential to make superannuation tax free for all Australians, over the age of 60 and grant equity to the Public Sector superannuants. This would be a true simplification of the taxation system on superannuation.

Recommendation

I urge you to grant the full proposed concessions to all Australians. The percentage of Australian 'unfunded' superannuants who have had an advantage is grossly overstated by the Treasurer.

Sincerely,
Patricia Graham
A Veteran's spouse

**Enclosure to Correspondence from the Treasurer
Dated 8th January 2007**

14 Jul 2006

**The Honourable Phillip Ruddock MP
Attorney- General
Member for Berowra
PO Box 1866
HORNSBY WESTFIELD NSW 1635**

Dear Phil,

Thankyou for your personal representations of 27 May 2006 on behalf of Lieutenant Colonel....., 17 Torrens Place, Cherrybrook, NSW 2126, concerning the treatment of superannuation pensions under A Plan to Simplify and Streamline Superannuation, announced as part of this year's budget.

In some superannuation funds no employer contributions are made until the person is ready to retire and no contributions or earnings tax has been paid has been paid on this element of their superannuation benefits. Funds with members' interests containing untaxed elements mainly effect military personnel and public servants. The military superannuation funds to which Lieutenant Colonel.....refers have these characteristics.

Under the Government's plan, an individual's own personal (after tax) contributions to superannuation would continue to be received tax free in Retirement. In addition, from 1 July 2007, any investment earnings and employer contributions that have been taxed in the fund would also be paid tax free to a person aged 60 or over.

Benefits paid from an untaxed source would still be taxed under the Government's plan. To remove the tax on these benefits would mean members of these funds would pay no tax on this part of their superannuation. This would be an unfair advantage to members of those funds as they have not paid the contributions and earnings tax that 90 per cent of Australians have paid on their benefits.

However, in recognition that the tax on superannuation has been reduced for people receiving benefits from taxed sources, taxes will also be reduced on benefits paid from untaxed sources for people aged 60 and above.

The 30 per cent rate of tax on lump sums will be reduced to 15 per cent up to a total of \$700,000, with any excess taxed at the top marginal level. A 10 per cent offset will apply to pensions paid from an untaxed source.

These are substantial benefits for retirees receiving benefits from untaxed sources. Under the plan it is proposed that, for people aged 60, pensions (including existing pensions) received an untaxed source would be taxed at marginal rates, but would receive a tax offset of 10 per cent of the total taxable part of the pension. Currently such pensions are taxed on the individual's marginal rate, with no offset. For example, a pensioner who receives a pension of \$56,000. with a deductible amount of \$6,000 (for contributions made from their after tax income) would have a taxable income of \$50,000. The tax offset would be 10 per cent of \$50,000 (that is, \$5000) The actual reduction in tax payable would depend on the persons' circumstances including the impact of other tax offsets

These changes will ensure similar tax treatment between benefits paid from taxed and untaxed sources.

I note finally that it does not matter when the military pension was commenced for individuals to benefit from these changes. From 1 July 2007, as long as the individual is aged 60 or over they will receive the benefit of the changes outlined above.

I trust that the information will be of assistance of Lieutenant Colonel.....

Yours Sincerely

(Signed)

PETER COSTELLO

(True copy with only the constituent's name suppressed, for reasons of privacy (Patricia Graham))