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16 April 2002

Ms S. Morton
Senate Select Committee on Superannuation
The Senate
Parliament House
CANBERRA ACT 2600

Dear Ms Morton,

In response to the Senate Select Committee's current inquiry into *The adequacy of the tax arrangements for superannuation and related policy to address the retirement income and aged and health care needs of Australians*, I would be grateful if the following concerns could be considered during the committee's deliberations.

It is my understanding that under the current Social Security Aged Pension arrangements, a couple with a combined income of less than $1975.00 per fortnight ($51350 pa) is entitled (subject to the Assets Test) to receive a part aged pension and associated concessions (travel, council rates, motor vehicle registration, etc. etc.).

There appears to be considerable inequity in this income test as it fails to differentiate between a couple's gross and **net** after-tax income. If, for example, we consider a couple with one partner receiving a superannuation pension of say $51000 from a **taxed** fund, then their **net** income after tax and Medicare Levy would be:

Gross pension	$51000 (which is under the Age Pension income threshold)
less undeducted purchase price (say)	5000
TAXABLE INCOME	46000

Tax on $46000		$10180
Plus Medicare Levy 1.5%		690
	Sub total	10870
LESS		
• 15% Superannuation Rebate on $46K	$6900	
• Senior Australians Tax Offset {$3204 - [($46000-$25730)x12.5 cents]} =	671	7571
	TOTAL TAX PAYABLE	$3299

THEREFORE NET INCOME = $51000 - $3299 = $47701*

(*This couple would be entitled to small age pension but this does not materially affect the substance of the comparison contained in this submission.)

On the other hand, if we consider another couple with one partner receiving a superannuation pension of say $52000 ($1000 more than the previous couple) from an **untaxed** fund, then their **net** income after tax and Medicare Levy would be:

Gross pension			\$52000
less undeducted purchase price (say)	5000		
TAXABLE INCOME	\$47000		
Tax on \$47000			\$10480
Plus Medicare Levy 1.5%			705
		Sub total	\$11185
LESS			
• Senior Australians Tax Offset			
• {\$3204 - [(\$47000-\$25730) x 12.5 cents]} =			546
		TOTAL TAX PAYABLE	\$10639
THEREFORE NET INCOME = \$52000 - \$10639 =			\$41361

It can be seen from these examples that the first couple, with a **net** income of \$47701 is entitled to a part aged pension, whilst the other couple with a **net** income of \$41361 is not. Hardly an incentive to contribute to an untaxed superannuation fund!

At this juncture I should perhaps declare that I have a vested interest in finding an appropriate resolution to what clearly seems to be an unfair arrangement. I am the recipient of a South Australian Government **untaxed** superannuation pension and there are more than 14000 others receiving pensions from this untaxed source (with more than 7000 still to come on stream). Whilst I do not have access to figures how many additional untaxed pensions are being paid by other jurisdictions (Commonwealth, State and Territory) the total is no doubt significant.

In recent years there has been a noticeable move towards the introduction of salary sacrifice arrangements in enterprise agreements. Within the South Australian Public Service, employees may sacrifice salary for a range of alternative benefits providing they agree to reimburse the government for any Fringe Benefits Tax that may be incurred as a result of the sacrifice. However, it is relevant to note that employees of 'Public Benevolent Institutions' as defined by the Australian Taxation Office, receive a dispensation from FBT liability – up to about \$8700 for hospital employees and \$15500 for non-hospital employees. (I do not have access to the latest figures.)

In view of the salary packaging arrangement now available to persons who are still in the workforce, it seems to me that it would not be inappropriate to allow superannuants, who are drawing their pensions from **untaxed** funds, to divert a portion of those funds to other benefits without incurring further tax liability. These other benefits could include subscriptions to private health funds, aged and disability care and perhaps home mortgage payments and private travel. (These benefits are presently offered to employees of Public Benevolent Institutions which, as mentioned earlier, do not attract FBT up to specified limits.)

In conclusion, I express my belief that those who throughout their working lives have set aside funds for their retirement years, thereby reducing the subsequent burden on the welfare system, should be rewarded for their providence. Superannuation pension sacrifice for those who are not entitled to the 15% tax rebate would be one way of achieving this.

Yours sincerely,

Michael S. Duff

PS: If you require clarification of the matters contained in this submission, I regret that I will be away from the above address until 13 May.