**PENSIONS FROM ‘UNTAXED’ SUPERANNUATION: “…NEITHER FISH NOR FOWL?”**

Issue: Inequitable tax treatment and consequences for retired Australians in receipt of a Superannuation Pension paid from an ‘Untaxed’ source.

Current arrangements are that pension income paid from an ‘untaxed’ source (for example Commonwealth Super; others exist) are currently dealt with under the **Individual Income Tax** regime, with a 10% pension offset (applying only to pension income) to compensate.

It is my submission that this results in unfairness and inequity in the taxation of pension and additional earnings, with such pensioners caught between Income Tax and Superannuation Systems but not fully in either.

Argument:

1. Such income is not in the nature of salary or wages, business income or the like. Such income cannot be redirected, re-defined, offset or ‘reweighted’ through, for example redirection “…towards concessionally taxed superannuation contributions…” (Re:Think Chapter 3; p.49). It is fixed in its place and cannot be ‘redefined’ as anything else or switched to alternative financial planning strategies. Put simply, recipients of such income do not and can not enjoy the full range of tax planning options available to other individual income tax payers with other income types, or other Superannuants who are for pension purposes outside the Income Tax System.
2. The consequence of having such Super pension income taxed within the Individual Income Tax System is severe and unfair on retirees who receive a large part of their income in this way. By example; any pension over $37,000 per annum attracts a marginal tax rate of 32.5c plus 2c Medicare Levy. Even with a 10% offset, this is effectively more than one quarter of any increments to pension.
3. An additional dollar earned from casual work immediately suffers a similar quantum of loss. An income tax-paying pensioner above the Income Tax Threshold is effectively taxed from “dollar 1” on extra work/earnings. That is not so for most Superannuants who can fall back on an ‘unused’ tax free threshold, because their main (Superannuation) income is OUTSIDE OF THE INCOME TAX SYSTEM.
4. The impacts on Australian Government Age pension for such ‘untaxed’ Superannuants can also be severe or disproportionate. A one dollar pension per fortnight increase reduces Age Pension by 50 cents. This happens because the ‘untaxed’ pension is “Taxable Income” within the Income Tax System and so enters the Age Pension calculation as “Income”. The vast majority of Superannuants are not impacted in such a draconian way.

It is my submission that the matter of how payments of so called ‘pensions from an untaxed source’ are taxed should be reviewed.

In particular, it is clearly unfair and inequitable that a class of pensioners must pay tax on additional part-time earnings at marginal income tax rates and have Australian Government pensions heavily impacted.

It is recommended that the tax treatment of ‘untaxed Superannuation pensions’ be reconsidered, to provide a fairer and less severely impacting tax outcome for such retirees, whether it is to re-calibrate the settings within the Income Tax System, or perhaps better to move the view of such income from an Income Tax to a Superannuation Retirement Income perspective.

M. L. Golder