

# AUSTRALIAN VETERANS AND DEFENCE SERVICES COUNCIL INCORPORATED

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## **DFRB/DFRDB Military Superannuation Community Dissatisfaction with the Application of the Simplified Superannuation Legislation – Call for Revision**

There is dissatisfaction within the DFRB/DFRDB military superannuation community with the application of the Simplified Superannuation legislation, noting the severity of the detriment of the separate tax arrangements now imposed under this legislation. It has been argued by government that the military superannuation scheme was unfunded. This argument is a generalisation that leads to perceptions of a discriminatory interpretation of very complex funding and taxing arrangements and developments over many years. Further review is required to address the matters raised in this submission.

The government position does not take account of the way the DFRB Act 1948 provided for a self-sustaining military superannuation fund through provision for a General Account and a Pension Account or of situations such as the Quinquennial Investigations in 1954 and 1959, which found the Pension Account in surplus and in 1959 paid the surplus to the Commonwealth.

In assessing the workings of self-funded superannuation and the allegedly unfunded DFRB/DFRDB scheme note should be taken:

- that government had the benefit of the use of the contributed funds unlike private sector superannuation funds where the only benefit to government has been the tax on these funds;
- of the need for a comparison of the way on the one hand, employers' contributions have been paid into private sector taxed superannuation funds, with on the other hand, the working of the funding of DFRB/DFRDB benefits from the two established accounts and from the Consolidated Revenue Fund (CRF) funded from these two established accounts and therefore contributions by members of the scheme, noting also the benefit to the CRF through the arrangement for the deferred timing of payment of the government's employer commitment; and
- that DFRB/DFRDB members had been paying contributions to their superannuation from their after-tax pay long before the introduction of taxing private superannuation funds. The taxation of private superannuation funds was introduced on 1 July 1988,

coming well after the time when older former members of the ADF would have been in a position to do more than they already had done to provide for their retirement security.

The effect is to contribute again to the perception of selectively discriminating against the DFRB/DFRDB community as a class. The perception of discrimination is compounded by the effect of indexation on a diminishing ability to maintain living standards. The application of the Simplified Superannuation legislation gives rise to the objection by military members to the failure of government to examine the justification of the way military superannuation and the DFRB/DFRDB in particular are singled out as an untaxed source.

Particular attention should be given to the effect of the date of the introduction of taxation of superannuation funds. Before 1 July 1988 none of the private superannuation funds were taxed and it is therefore only from 1988 that there is any distinction on the basis of taxed or untaxed superannuation schemes between the DFRB/DFRDB Scheme and taxed superannuation schemes. From the time of being a contributing member under the DFRDB Act 1973, which can take participation back to the introduction of the DFRB Scheme in 1948 there was no taxation of any superannuation funds, private or government until the new superannuation taxing arrangements were introduced in 1988.

The combined effect of the provisions of the Simplified Superannuation legislation, which seeks to provide relief from the new superannuation taxing arrangements introduced in 1988, is that DFRB/DFRDB superannuants are categorised differently for the entire period of their effective service and not just from when superannuation taxing arrangements were introduced in 1988. In effect the date from which there is a distinction between taxed and untaxed sources is when the new taxing arrangement was introduced in 1988.

If government is going to persist with treating the DFRB/DFRDB schemes as unfunded, and this is contested, it should be only from 1988 that the difference between taxed and untaxed sources should be applied because before that time all superannuation schemes were treated the same way for tax purposes. DFRDB contributing members may have had an advantage after 1988 but there was no advantage before 1988 when related to private schemes. A solution is to make different tax concession provisions before and after 1 July 1988 but this does not seem to have been considered.

The present provisions, although including a 10% rebate, are not equitable with the treatment given to most other superannuants in the community. They also include an additional effect of taxing military pensions at the taxpayers' marginal rate, which puts them at a significant disadvantage when compared with taxpayers receiving pensions from "taxed" funds.

The government function needs to review in greater detail the background to and detail of the DFRB/DFRDB schemes and how they relate to the intention and impact of the Simplified Superannuation legislation, provide a better explanation to the military superannuation recipients and a taxation adjustment to correct this clear discrimination.

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