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Submission to the *Australia's Future Tax System* review.

The Treasury
Langton Crescent
Parkes ACT 2600

14th of October 2008.

Dear Sir

I make the following suggestions for the tax review panel to consider.

Summary.

Pensioners paid from non-taxed source pensions are greatly disadvantaged compared with pensioners paid from taxed-source incomes where they have income from other, non-pension, sources. This could be overcome by replacing the non-taxable income status of taxed-source pensions by a tax offset equal to the tax payable on the pension. Alternatively pension and other, non-pension, income could be taxed separately.

Exemption of taxed-source pensions from the Medicare levy is unjust.

Abolition of income tax on earned income (but not on investment income) for people of pension age would be a strong incentive for these people to stay in the workforce.

Discussion

Pensioners who are paid from taxed and untaxed schemes are treated differently and very inequitably as far as tax is concerned. Those paid from an untaxed scheme receive a 10% tax offset, whilst those paid from a taxed scheme are assessed as having no taxable income at all from their scheme. The result of this is that any additional income, in most cases income from investments, is taxed as if it is the pensioner's only income where the pensioner's pension comes from a taxed scheme, but is added to the pensioner's taxable income where the pensioner's pension comes from an untaxed taxed scheme. This results in a much higher amount of tax being paid on this additional income by the pensioner who receives an untaxed-source pension. This applies even where the two pensions are identical and the other source incomes are identical. In my view this is highly inequitable. **I do not advocate that untaxed-source <u>pensions</u> should receive the same <u>tax</u> treatment as taxed-source pensions, the schemes are different and it is reasonable that different tax treatments are applied to the <u>pensions</u>, but that untaxed-source pensioners should receive harsher tax treatment for their non-pension income is in my view most inequitable.** I believe that pensioners who have made additional provision for

themselves in retirement should all be treated equally where taxation of this additional income is concerned regardless of the taxed- or non-taxed source of their pension.

A further consideration, and in my view a totally bizarre situation, is that taxed-source pensioners do not have to pay the Medicare levy on their pension whilst untaxed-source pensioners do; a taxed –source pension of hundreds of thousands of dollars is not subjected to the Medicare levy, whilst an untaxed –source pension of a fraction of this amount is subjected to the levy. Of course if they have additional income both types of pensioner do have to pay the Medicare levy, but at a lower level for taxed-source pensioners than for untaxed-source pensioners. I find it hard to believe that this was intended when Simpler Super was introduced. Pensioners, regardless of the source of their pension, are the heaviest users of medical services, and that one person should pay the Medicare levy and another, on an identical pension, should not have to do so beggars belief.

In view of these considerations I believe action is needed to treat all self-funded pensioners equally in respect of other non-pension income, regardless of the source of their pension. Also I do not think that paying the Medicare levy is an unreasonable liability for pensioners. One possible solution would be for taxed-source pensioners to be given a tax offset equal to the tax liability, excluding the Medicare levy, on their pension, instead of being treated as though they have no taxable pension income as occurs at present. This would achieve the following:

1. It would leave taxed-source pensioners paying the same tax on their pension as they do at present, that is no tax,

2. It would leave taxed-source pensioners and untaxed-source pensioners in identical situations as far as taxation on additional income is concerned, removing the present gross inequity in this regard,

3. It would leave taxed-source pensioners (and untaxed-source pensioners) with a Medicare liability, reasonably so in my view.

This proposal will have the disadvantage of taking away from taxed-source pensioners a benefit they presently enjoy, that of having additional, non-pension, income taxed as if it were their only income. A way of overcoming this (this would apply only to people of pension age) would be to treat pension income and other, non-pension, income as completely separate entities as far as taxation is concerned, taxing each one separately. This would ensure that untaxed-source pensioners were treated in the same way as taxed-source pensioners as far as other income is concerned.

The above deals with the inequitable treatment of pensioners based on the source of their pension. A further suggestion I have to make on a different topic concerns the Government's desire to encourage people to stay in the workforce past retirement age. If all income earned as wages or salary (not investment, and possibly other types of income) by a person of pension age were either treated as tax-free, or subjected to a tax offset equal to the tax liability on this earned income, there would be a considerable incentive for older people to stay in the workforce. My suggestion in the

previous paragraph of people of pension age having more than one income stream and that these would be taxed separately could be extended to a third income entity, earned income. Thus a person of pension age would have three separate income streams, pension, investment income, and wages or salary income, these would be taxed separately and the Government could vary the taxation regime applied to each of them in light of the country's economic needs as well as the need to treat all classes of pensioner equitably.

Yours truly

Michael Evans

Dr. Michael Evans.