



**Australian Association of Former International Civil Servants
(AAFICS)**

**Submission on Australia's Future Tax System Review
– Panel chaired by Dr Ken Henry AC
Response to the Retirement Income Consultation Paper (December 2008)**

**By the Australian Association of Former International Civil Servants (AAFICS), representing
retirees of the United Nations in Australia**

Our concerns

On 20 November 2008 AAFICS forwarded a detailed submission to the Review Panel setting out concerns that, under current taxation legislation, retirees from the United Nations system are unfairly taxed when compared with other pensions paid from 'taxed' and 'untaxed' schemes. As there is no mention of United Nations retirees in any of the public papers placed on view by the Panel, including the Consultation Papers released on 10 December 2009, AAFICS wishes to submit an addendum to its original submission targeting the following questions in the consultation papers, which we believe to be the most pertinent to the case of UN retirees.

Consultation Questions

Q3.2 Does Australia's tax system penalise (or favour) the returns to savings relative to other activities and should this lead to changes in the structure of taxes and means tests?

Q4.1 How might the personal tax system be changed to better achieve the goals of greater simplicity, transparency, equity and efficiency?

Q4.5 Should people in different circumstances be taxed differently (for example, by age, occupation, location), and what might be the implications of such arrangements? Are tax offsets the best way to achieve differential taxation?

Q5.6 Is the current level of superannuation income tax concessions appropriate and sustainable into the future? Are the current concessions properly targeted and, if not, how should they be reformed?

Pensions paid from the United Nations Joint Staff Pension Fund

All employees of the United Nations on other than casual contracts must meet the obligation of contributing to the UN pension scheme and to UN approved health insurance schemes, through deductions from the monthly net salary after deduction of the staff assessment (see details in AAFICS' original submission) at rates applicable to the level of salary of the employee. Employing organizations also contribute to the pension scheme for each employee.

Under current taxation legislation, when Australians who have worked in the United Nations system return to Australia having reached retirement age, their pension benefits from the United Nations Joint Staff Pension Fund are deemed to be paid from a foreign source, and are therefore taxed at

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marginal rates, having neither the tax free status afforded to superannuation pensions nor the 10 % tax rebate granted to pensions paid from untaxed schemes such as those operated for retirees from Australian state and federal public services.

“Equity is an important objective of the tax transfer system” (Architecture paper)

The following table shows that on the average pension paid to a UN retiree in Australia (A\$ 28,000 from information provided by the secretariat of the UNJSPF, which can be verified by the Treasury Department) taxes would be over 600% greater, while tax on a pension of \$50,000 would be over 200% greater.

| TABLE 1 | | | | | |
|--|---------|--------|--------|--------|--------|
| Comparison of Tax on Annual Pensions Paid Under “Untaxed” Australian Schemes and the UNJSPF | | | | | |
| (Base tax scales effective for 2008) | | | | | |
| Annual Pension (AUD) | 28,000* | 30,000 | 35,000 | 40,000 | 50,000 |
| Tax on Untaxed Scheme in Australia e.g Commonwealth Public Servants. (1) | 500 | 600 | 1,600 | 2600 | 4,600 |
| Tax on UNJPF pension (2) | 3,300 | 3,600 | 5,100 | 6,600 | 9,600 |
| Percentage of (2) to (1) | 660% | 600 % | 319 % | 254 % | 209 % |
| * Average UNJSPF pension paid in Australia | | | | | |

As a fully funded scheme, pensions paid by the UNJSPF do not represent a future liability on the Australian taxpayer but do represent a benefit to the Australian economy, albeit a modest source of foreign exchange.

A fundamental rule of taxation policy is that all taxpayers should be treated equitably. While it is appreciated that there may be some justification for taxing pensions paid from ‘taxed’ and ‘untaxed’ schemes differently, this is certainly not the case in respect of pensions paid by schemes operated for the benefit of the federal and state public services and those operated for the international public service. Both the legal and the economic incidence of the tax is disproportionate even at the lowest marginal rates. UN retirees pay more taxes than those in similar circumstances and pay more than those with the same capabilities.

There is no mention in the Retirement Income Consultation paper of international pension or superannuation transfers into Australia as a desirable benefit to the country. Yet the Paper says there is increasing pressure for Australia’s tax-transfer system to remain internationally competitive.

AAFICS maintains that the current taxation concessions need to be widened to also target Australian citizens who have worked for the United Nations and now receive a UN pension. By regarding these pensions as ‘foreign’ and taxing them at the marginal rates the pension is reduced significantly. This acts as a major disincentive if the UN pensioner has to seek work to improve income.(i.e. if the government regards the UN pension as unearned income, any additional money earned has the potential to push the pensioner into the next taxation bracket and thereby effectively reducing the going rate of pay compared to other employees doing the same job).The Review paper

says that the acceptable approach to tax and transfer systems is fairness and efficiency. The UN retirees in Australia appear to be excluded from this acceptable approach because we are viewed as external to the system – recipients of a foreign income.

As the Architecture Paper says: “all taxes and transfers affect behaviour in some way”. In this regard, AAFICS believes that the current treatment of UN retirees as external to the system leads to:

- 1 UN retirees feel not included and their preferred choice of returning to Australia is not catered for. On the international competitiveness issue, there is a growing list of European and Asian countries that provide tax rebates to UN retirees, recognizing the principle that they formed part of the geographical quota of those countries in the UN, and that these are retired citizens who are self sufficient and should be treated equitably. The current treatment of UN retirees in Australia compares unfavourably with these, relying as it does on a definition of service in the UN as service in a “foreign” organization. This attitude belies Australia’s financial commitment to and current intellectual and political engagement in the UN organizations. Thus, the current retirement income policy in Australia, as applied to UN retirees, affects workforce participation decisions and creates disincentives, including the decision to return to one’s own country to retire, or to seek a more tax friendly environment elsewhere.
- 2 The persistence of inequality of treatment in taxation will have a detrimental effect on the future recruitment of Australians to United Nations organizations and will act as a deterrent to the desire of qualified and experienced Australians to work in these organizations. We are convinced that Prime Minister Rudd’s Government intends Australia to play a greatly enhanced and active role in the international system of cooperation. The message that Australians in the United Nations system who return home to retire will not be penalized by the taxation system but will receive fair and equitable taxation treatment will be one of the most immediate and sincere ways of showing this.
- 3 Furthermore, interaction with the personal income tax-transfer system is fraught for UN retirees in Australia. AAFICS is currently in correspondence with Centrelink for some members who, by rights, should be able to claim a partial Age pension by virtue of their low UN pension but have had their partial Age pension withdrawn. Unfortunately, there are misunderstandings and unnecessary complexities, based on the definition that UN retirees receive a foreign income. Centrelink are applying exchange rates that considerably overestimate our members’ UN pension value here in Australia. The same unnecessary complexities hold for qualification for Disability Support Pensions, or concession cards. Many of the spouses of deceased UN retirees are elderly and are only receiving small survivors’ benefits. Under the income tests, allowances reduce more quickly with private income than with pensions; again a form of inequality for UN pensions, because they are regarded as unearned “foreign” income and not as pensions. However, we recognise that the Senior Australians’ Tax Offset and the Low income tax offset also apply to UN retirees on small pensions who can have partial Age Pensions.

Other inequalities. Private Health Insurance

The Government does not recognise the various United Nations after service health insurance schemes, such as the UN After-service Health Insurance (UN ASHI) scheme or UN SMIS (United Nations Staff Mutual Insurance Society against Sickness and Accident). UN retirees that opt to maintain continuous cover for private health cover under these schemes are not entitled to receive the 30% tax rebate on premiums paid and may be liable for the Medicare levy surcharge, yet by

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maintaining continuous private health cover they satisfy the government's objectives in reducing their dependence on the public health system and largely reduce their claims on Medicare.

While UN retirees are free to change their private health cover to an Australian insurer they are subject to the conditions of the governments Lifetime Health Cover including increased premiums due to their age, waiting periods and the exclusion of ongoing coverage for existing health conditions. This is clearly iniquitous and may force them into the public health system until coverage is available under an Australian private health insurer.'

Conclusions and Recommendations:

In summary, AAFICS believes that tax reform that treats UN pensions as non-foreign income pensions is needed. Given that the Australian Government sanctions and encourages its nationals to join the United Nations, under its allotted quota, and given that Australia contributes (through its UN dues) to the employment and pensions of these nationals, these pensions should be regarded, at the very least (given that Australian former UN employees have also contributed to reducing Australia's dues to the UN via their UN tax), as untaxed pensions similar to Commonwealth and State public servants and allowed the 10% tax offset. That is, the UN should not be regarded as a profit making, foreign-owned company employing Australians for commercial gain. Its pensioners, who are often highly skilled and sought after by the UN, should be taxed and given the same tax transfer concessions as their fellow Australian public servants.

When AAFICS put our case before him, Senator Sherry responded: *"In 1988 the government ruled that the UNJSPF be denied the 15% pension and annuity rebate like other public servants on untaxed schemes. Hence it would seem that the UNJSPF would now be treated the same as other public servant "untaxed" schemes and receive the 10% tax offset. "*

The Australian Government participates in the United Nations Joint Staff Pension Fund financially through its contributions to the United Nations and its Specialized Agencies, and participates in and votes on resolutions establishing UN employment conditions and the UN pension system. The Australian Government therefore participates both in funding and administering the UN Pension Fund. This is not the case in respect of pension or superannuation schemes operated for the benefit of retired staff of multinational corporations or other foreign pension schemes. Placing the retired officials of the United Nations multilateral system in the same taxation category as persons who receive a post employment income from multinational corporations, contradicts the status of Australians working as part of Australia's quota of nationals in the UN system.

This paper has been submitted on behalf of AAFICS, a voluntary association representing the interests of United Nations retirees in Australia.

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Supplementary Retirees' Representative (2009), Board of the UNJSPF

Sydney, 29th January 2009

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