Introduction To International Aspects Of Pensions - Australia

1. Considerations affecting retirement provision

- When do you intend to retire?
- Where are you going to retire to?
- What form and amount of income do you want to have in retirement?
- Are you confident of a regular income throughout your working life or do you anticipate that your earnings will fluctuate considerably?
- Are you going to work in the same country for the remainder of your working life or are you going to be in a number of as yet unspecified countries?

Some of these questions can be impossible to answer. For instance at the age of 30 one country may appear an idyllic potential final place in the sun. However thirty years later your expectations and views may well have changed, and the country in question may be very different. Few people can have any degree of certainty about the path that their working life will take.

2. Pension Portability

Individuals who work or live in a number of countries are faced with a more complex situation and one that is continually changing as legislation and commercial products evolve in response to each other.

Although EU legislation exists covering the transfer of state (statutory) pensions within the EU, this is typically difficult to achieve. Transfer between state pension schemes into or out of the EU or between other countries is generally not possible.

A new EU directive has been drafted recently that provides for the preservation and transfer of pension rights within countries in the EU for occupational pension schemes since these are becoming far more widely used and in some cases replace state schemes. The details of this Directive are of course subject to change during the approval process. It does not deal with tax or indexation of pension issues.

3 Australia

Pensions provision is known as 'superannuation' in Australia.

Over time superannuation gives a high return on savings because it is invested for an employee and the government taxes superannuation at low rates. This makes superannuation a financially effective way to save for retirement. The Superannuation Guarantee (Administration) Act 1992 (SGAA) has applied since July of that year, and was introduced to ensure that most employees receive superannuation support from their employer. An employer is obliged by law to provide a set minimum amount of superannuation support for an employee by paying superannuation contributions into a superannuation fund or retirement savings account (RSA) which meets government rules.

Contributions to complying superannuation funds are fully tax deductible to employers up to the age based deduction limits. 'Self-employed persons' (whose income from an employer is less than 10 per cent of their total income) get a full tax deduction on the first A$5,000 of contributions plus 75 per cent of the remaining contribution up to the age based deduction limits.

The deduction limits (2004-05) are:

Age of employee	Deduction limit
under 35	A$13,934
35 to 49	A$38,702
50 and over	A$95,980

As far as the taxation of superannuation fund earnings is concerned, the earnings of complying superannuation funds are taxed at a rate of 15 per cent (non-complying funds are taxed at a rate of 47 per cent).

The tax applied to withdrawals is determined by reference to the age of the member, the type of benefit paid and whether it is within the Reasonable Benefit Limit (RBL).

Benefits withdrawn that are below the Reasonable Benefit Limit will be subject to concessional tax treatment. Depending on the type of payment some portion of the benefit may be tax free. It is important to note that contributions made from after-tax salary are not included in the Reasonable Benefit Limit.

Any amount withdrawn that is above an individual Reasonable Benefit Limit is taxed at the highest marginal income tax rate plus the Medicare levy.

For the 2004/2005 financial year the lump sum Reasonable Benefit Limit is $619,223 and the pension Reasonable Benefit Limit is $1,238,440. The pension Reasonable Benefit Limit can be used where at least 50% of the benefit is taken as a complying pension or annuity.

The 1996 Federal Budget announced that the employee standard deductible contribution limit, which defines the maximum amount of tax deductible Superannuation contributions a company can claim in respect of an employee, would be removed and only the age related limits would apply. This was to have significant implications for highly paid employees.

In 1997, a surcharge on pension contributions of higher-income Australians was enacted by the government, raising doubts about the future growth of Australian pension assets. By 2004/2005, the surcharge had reached 12.5% on income from $99,710 to $121,074, plus an additional 12.5% on income above that. This surcharge provides high earners with very little savings and even less incentive for contributing any voluntary additional contributions, as plan participation is compulsory for at least a minimum amount. Australian market managers feared that this would provide higher earning employees little inducement to give more than the minimum and would ultimately slow down pension assets growth. The government also raised the minimum income at which people must contribute to the fund - from A$450 to A$900 - thus reducing the number of lower-earning individuals on whose behalf employers will be making contributions to a pension plan, and further threatening growth in pension assets.

However, delivering his tenth budget in May 2005, Treasurer Peter Costello announced that the Government will abolish the superannuation surcharge on contributions and termination payments made or received from 1 July 2005, in order to encourage private savings.

A person is resident in Australia if any of the following situations apply:

- He is domiciled in Australia and does not have a permanent and indefinitely continuing place of abode abroad;
- He is not domiciled in Australia but has been in Australia either continuously or intermittently during the fiscal year for 183 days or more (unless he can satisfy the Commissioner that his usual place of abode is outside Australia and that he does not intend to take residence up in Australia and does not intend to live in Australia for more than 2 years);
- They are resident and go abroad, but the term of employment is less than 2 years, and the individual intends to return to Australia;
- They have a permanent home, habitual abode, or close personal and economic ties in Australia.

In terms of tax breaks for expatriates who have become tax resident in Australia, the short answer is that there aren't any! For the moment, resident expatriates are taxed as Australian citizens, on their world-wide income, and there are fairly stringent anti-avoidance provisions in place to prevent the sheltering of assets in offshore trusts or companies. However, from 2001, foreign nationals who entered Australia on a temporary entry permit (for no longer than 4 years) were exempt from tax on small foreign income relating to assets acquired before becoming resident in Australia. There are no specific allowances or systems pertaining to non-resident expatriates, other than the fact that they will not usually pay income tax on foreign earnings or income, but they are not permitted to take advantage of some of the exemptions and rebates open to Australian residents.

While resident individuals are liable for tax on their world-wide income, non-residents are only taxable on Australian sourced income and taxable Australian assets. However, the definition of 'Australian sourced' income is quite far reaching. Tax rates for 2004/2005:

Taxable income	Marginal rate
Up to A$21,600	29%
A$21,601 - A$58,000	30%
A$58,000 - A$70,000	42%
Excess over A$70,000	47%

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