



Australian Government
The Treasury



Ref: MC24-010516

Mr Barry Gear AO

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Dear Mr Gear

Thank you for your correspondence of 3 July 2024 to the Hon Jim Chalmers MP, Treasurer, concerning the South Australian State Pension scheme.

The decision to provide superannuation benefits to individuals from a fully funded constitutionally protected fund is a matter for the relevant State Government. We cannot comment on the financial matters between the Commonwealth and State Governments nor credit ratings of the States. The South Australian Government would be better placed to answer your specific questions and we recommend that you contact the South Australian Government for more information on these matters.

In regard to your comment about the differential taxation treatment of pensions paid from a fully funded and taxed source compared to a previously unfunded or untaxed source, the reason that people are still subject to income tax and Medicare Levy on the latter sources is because they have not been previously taxed in the scheme. As you will know, generally superannuation is taxed (albeit concessional) in the pre-benefit phase, when contributions are made, and earnings are derived on those contributions during this phase. In acknowledging the tax concessions that this superannuation arrangement generally receives, members in unfunded or otherwise previously untaxed arrangements who are subsequently taxed on receipt of their pensions receive a 10 per cent tax offset and are not subject to their full marginal rates.

We note you have made comparisons between the outcomes for members between differently funded and taxed arrangements across the States and Commonwealth. Although we cannot comment on specific financial matters, we note in this regard that the Commonwealth would not necessarily benefit from arrangements that defer the taxation of superannuation to when the member receives the pension.

Once again, thank you for taking the time to write.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A. Hawkins'.

Adam Hawkins
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03/ 09/2024

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