



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

The Hon. Kevin Rudd, MP, Minister for Foreign Affairs  
Parliament House  
Canberra ACT 2600

6 June 2011

Dear Minister,

We should like to bring to your attention discrimination in the taxation system adversely affecting former employees of the United Nations who have retired in Australia, namely the treatment of United Nations pensions as foreign-derived income rather than as contributory superannuation benefits. This results in former United Nations civil servants being taxed at rates far in excess of those incurred by other Australian retired public servants and in their being denied tax concessions that are available to other Australian citizens.

As former employees of the United Nations, we are not seeking any privileges in our tax status, although other countries do give special treatment to United Nations pensions. We ask only (i) that our United Nations pensions be taxed on the same basis as any Australian superannuation benefit and (ii) that the United Nations Health Insurance schemes be accepted as eligible schemes for exemption from payment of the Additional Medicare Levy.

We fully appreciate your intention that Australia adopt a policy of international involvement befitting the country's interests and, as part of that policy, we take it that you would want to encourage Australians to participate in the workings of the United Nations and its agencies. It is obvious, therefore, that equitable tax treatment of Australian citizens who choose to take up international civil service positions and who, after retirement, would like to return to Australia is fundamental to this goal. However, the present system poses a significant disincentive to Australian representation in the United Nations and its agencies.

Attached is a detailed brief in support of our request. We hope you will have time to study it and recognize the justice of our submission. We, of course, stand ready at any time to answer any questions related to this matter or to clarify any points that have not been adequately covered.

Accept, sir, the assurances of our highest consideration,

Mary Johnson  
President,  
Australian Association of Former International Civil Servants  
(AAFICS)

Representing Retirees of the United Nations in Australia

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**To:** The Honourable Kevin Rudd, MP, Minister for Foreign Affairs.  
The Honourable Bill Shorten, MP, Minister for Financial Services  
and Superannuation.

**From:** The Australian Association of Former International Civil Servants (AAFICS).

**Subject: Treatment of United Nations Pensions Under the Australian Taxation System.**

**1. Purpose.**

1.1. We are asking you to conduct a review of the application of Australian taxation procedures, as they affect United Nations pensions received by Australian citizens.

**2. Background.**

2.1. The Australian Association of Former International Civil Servants (AAFICS) represents Australians who have worked in the United Nations system and who have returned to live in Australia after completing their service. On reaching retirement age, these Australians receive a monthly benefit from the United Nations Joint Staff Pension Fund which is based in New York and which is a defined benefits scheme into which they paid mandatory contributions while in active service.

2.2. We are making this submission to both of you, because Treasury is responsible for superannuation and taxation, while the Department of Foreign Affairs is responsible for the conditions under which Australians are employed by the United Nations and its specialized agencies, through the application of the International Organisations (Privileges and Immunities) Act 1963. The Department of Foreign Affairs and Trade has frequently emphasized Australia's strong commitment to the United Nations, and Australia participates actively in the deliberations of the General Assembly and its committees, including the Administrative and Budgetary (Fifth) Committee which oversees the salaries and pensions of the United Nations staff.

**3. Tax Status.**

3.1. As a member of the United Nations, Australia makes an annual contribution to the United Nations organization which is reduced by payments made from the gross salaries of all Australian employees of the United Nations. This reduction in Australia's dues is known as Staff Assessment and is the equivalent of income tax at source. DFAT and Treasury are in charge of the application of this scheme for Australia. In 2010 Australia's gross assessment to the United Nations Organization amounted to US\$ 45,437,230. Credit from Staff Assessment amounted to US\$ 4,561,999, thereby reducing the dues paid by Australia to US\$ 40,875,231. The Staff Assessment scheme applies to the gross assessments Australia contributes to all the UN Specialized Agencies of which it is a Member State and in which Australians are employed.

3.2. Sometimes, DFAT officials refer to Australian officials in the United Nations as receiving "tax-free" salaries, but this is clearly not the case.

**4. United Nations Pension Status.**

4.1 Australian officials in the United Nations make mandatory contributions to the United Nations Joint Staff Pension Fund (UNJSPF) as long as they are in active service. They contribute one-third

of the fund's total income, and the employer agency puts in two-thirds of the total. Despite it being clear that the contributions are taxed at source through the Staff Assessment scheme during the accumulation phase, i.e., while staff members are accruing their pension entitlements, the ATO and Treasury persist in classing the UNJSPF as an untaxed scheme.

4.2. In fact, since 1983, the ATO has recognized that Staff Assessment paid by Australians working for the United Nations is the equivalent of income tax, by allowing the recipients of a United Nations pension to claim an offset, called an "undeducted purchase price" (UPP), in respect of their own one-third contributions, in order that these contributions should not be taxed twice.

4.3. Nevertheless, the view, expressed in an ATO letter of 7 March 2008, is that the UNJSPF is "not an Australian superannuation fund for taxation purposes under the current law, neither is it a fund regulated under Australian law. Consequently pensions paid from the UNJSPF cannot be treated as pensions paid from an untaxed Australian scheme." Yet, the Australian Government receives the Staff Assessment equivalent of national tax on the salaries of Australians working in the United Nations system and participates in the governance of the UNJSPF through its membership of the Fifth Committee. We are very much appreciative of the role Australia plays both in governance and decision-making bodies of the UN system and as Australians working in the UN system – the Secretary of the Fifth Committee is an Australian senior UN official and also a member of the UN Pension Fund board. The relationship Australia has with the UN Pension Fund should not be compared to that of any other pension arrangement originating in a foreign country – there are pronounced differences.

4.4. We have to add that the UPP, mentioned above, is a small offset that does not take into account the employer's contribution. Given that the UPP offset is not indexed and is linked to the US dollar exchange rate, it is a decreasing proportion of the United Nations pension and, with the current rate of exchange, has lost a very great part of its value. Accordingly, the acceptance, by the ATO, that United Nations retirees are entitled to this small tax concession in no way offsets the broad financial disadvantage to which they are subject.

4.5. Australia's position on the taxation of UNJSPF pensions is **not** a mainstream position. Austria, Hungary, India, Malaysia, Singapore, Spain, Sweden and Thailand provide tax exemption on UNJSPF pensions. Canada, Denmark, Germany, Netherlands and the United States of America have made provision for partial taxation exemption of United Nations pensions in their national taxation legislation. France and Switzerland provide tax exemption for lump-sum payments from the UNJSPF and have a lower average rate of taxation. As a consequence, they attract United Nations retirees from other countries, whereas we have anecdotal evidence that, since 2007, Australian retirees are not returning to Australia in the same numbers as before.

4.6. The changes to superannuation entitlements, brought in on 1 July 2007, were supported by Labor, because the changes improved retirement incomes for many Australians. However, the same changes introduced substantial discrimination in taxation against all Australians who returned to live in their own country with a United Nations pension. At the time, we wrote to Mr. Costello and Treasury, asking for fair and equitable treatment on a par with other Australians and drawing the evident parallels between Australia's public servants and international civil servants returning to live in Australia. Nevertheless, to our great regret, our reasonable and substantiated requests to the Government, at that time and, subsequently, to the Henry Tax Review, generated replies that simply referred to the *status quo*, without entering into the merit of the issues we raised.

4.7 In this context, communications from Treasury consistently compare the so-called "untaxed" United Nations Joint Staff Pension Fund unfavourably with Australian schemes, some of which

have collapsed and generated the need for compensation from taxpayers' money. However, there is a stark difference between the solidity and governance of the United Nations Joint Staff Pension Fund and the several Australian superannuation funds that have been involved in fraud, despite their supposedly regulated oversight. Australia's oversight of the UNJSPF, from its seat on the Fifth Committee, is at least as effective as any regulatory control of superannuation that is exercised in Australia. We know that Australia's Future Fund has met with the Investment Management Service of the United Nations Joint Staff Pension Fund.

## **5. Impact of tax discrimination.**

5.1 We understand that the policy of the Australian Government is to enhance Australia's international role and that one important element of this policy is to strengthen Australian participation in the activities of the United Nations and its agencies. It is obvious that an essential element of such a policy must be to optimize the recruitment of Australians to the international civil service. However, such a goal is severely undermined by the fact that potential Australian recruits will be aware that, on retirement, they will be penalized financially by a discriminatory tax regime in their home country and that their only option for fair treatment will be to retire to another country. This will be a crucial disincentive to anybody considering an international civil-service career.

5.2 We believe that efforts to have Australia play an enhanced role in key United Nations structures and processes would be strengthened by an announcement that the taxation of UNJSPF pensions in Australia was being reviewed for fairness of treatment. Since July 2007, Australians working in the United Nations system have been deeply disappointed by the realization that, on return to Australia, they are treated on a par with Australians who have been employed by the vastly more remunerative multinational corporations whose aims and conditions of work are not comparable with those of the United Nations. ATO practices should not place retirees from the multilateral United Nations agencies in the same taxation category as those from multinational corporation.

## **6. Discrimination against medical coverage.**

6.1 We also ask that attention be given to the fact that the United Nations Health Insurance Schemes are not recognized as complying with the Additional Medicare Levy requirements, so that United Nations retirees are required to pay the levy, even though the United Nations schemes offer health coverage as good as any Australian scheme. Furthermore, the United Nations scheme is, at the very least, as soundly based and as well regulated as any Australian scheme, so that this tax discrimination cannot be based on any impartial assessment of administrative or fiscal soundness. Canada, France, Switzerland and the United States of America all recognize the United Nations' health-insurance schemes, while Australia rejects the schemes, without offering any rationale for this rejection. This seems an absurdity.

## **7 Conclusion.**

7.1. In submissions to Treasury and the Henry Tax Review, we have shown that the United Nations Joint Staff Pension Fund is based on solid governance and investment criteria, has characteristics similar to Australian complying superannuation funds, is partly funded by Australia (which also has oversight through the UN General Assembly) and has significant investments in Australia. We should also point out that Australians, joining the United Nations, do **not** have the choice of joining an Australian complying superannuation scheme instead, placing them in an impossible situation. It is, therefore, perceived by all Australians, returning to live here with a United Nations pension, as unreasonable, to press such a taxation disadvantage on them.

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7.2. We also point to the impact that the present taxation of United Nations pensions has on individual decisions to join the United Nations and its agencies. Australians in the United Nations are given the choice, on retirement, of either suffering financial injury through inequitable taxation of their pensions or of not returning to live in Australia.

7.3. We ask:

- i. **That ATO procedures be amended to allow equitable tax treatment of United Nations retirees in Australia.** Our request does not affect any of the interests pursued by the new superannuation regulations introduced in 2007: this is a simple policy decision, without any great technicalities involved. If the USA and Canada consider the UNJSPF to be a qualifying pension fund, why cannot Australia do so?
- ii. **That your Departments conduct a policy review of the case we have presented and not simply make a restatement of the *status quo*.** We ask that you look at the effect on Australia's long-term multilateral interests in treating Australians retiring from the United Nations so differently from the way that Austria, Canada, Denmark, France, Germany, Switzerland, USA etc. treat their nationals on retirement, particularly in relation to the encouragement of United Nations career commitments by Australians.
- iii. **That you review the UPP and its diminishing impact as a tax offset for UN retirees in Australia.**
- iv. **That UN retirees who keep paying their UN health-insurance premiums should have these recognized as equivalent to payments to Australian-based private health-insurance schemes.**

We thank you, in anticipation, for your attention to these matters and reiterate our sincere belief that these are issues requiring your attention in the best interests of the country and on the basis of common justice.

Yours sincerely,

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