TAXATION OF UNITED NATIONS PENSIONS IN AUSTRALIA

A Note from the Australian Association of Former International Civil Servants

(AAFICS)

On taking up residence in Australia after retirement you will become liable for personal income tax on your “foreign pension”. You become liable for personal income tax if you stay more than 183 days in a twelve month period.

All UN retirees receive a monthly pension benefit from a retirement fund established and managed outside Australia, under an international tax agreement that provides UN pensions are taxable in Australia as a foreign income. In December 2015 the full High Court of Australia handed down its finding in the case of *Macount v. ATO.* The judges concluded that the International Organizations (Privileges & Immunities) Act applied only to World Bank and by implication to UN officials, while they were in service, and that their pensions were not part of the “salaries and emoluments” protected from national taxation by the Act.

However, the Australian Taxation Office allows a deductible amount each income year, recognizing that UN employees contributed to the purchase of their pension. This is called the Undeducted Purchase Price (UPP). If you lie long enough (more than 20 years), you will in effect have achieved the return of the amount you paid into the UN Pension Fund.

In order to include this deduction in your tax return, it is necessary to establish your UPP amount. If you do not already know how much you personally contributed to the UN Pension Fund in the course of your career, you can write to the UNJSPF in New York or in Geneva and ask for the summary of all your contributions to the pension fund. For the ATO, these contributions can only be calculated from 1 July 1983, when the UPP ruling was introduced by the ATO.

The other characteristic of your UN pension that the ATO recognizes as contributing to the deduction is that the UN benefit is payable for life and is a reversionary pension (I.e., your widow/widower will receive a survivor's benefit). Taking a lump sum from the UN Pensions Fund at the time of retirement may affect the calculation of the UPP.

A lump sum taken from the UN Pension Fund is tax free in Australia but only if the lump sum is received in your account within 6 months of you becoming a tax resident in Australia. The 6 months starts being counted from day one of your arrival. In recent years the UN Pension Fund has unfortunately often taken more than 6 months to pay out the lump sum and the first monthly benefit to new retirees. AAFICS suggest before you retire you should make sure that all the papers to be sent from your employing organization to the UN Pension Fund are in your HRD file ready for dispatch immediately on your retirement. If you think that there will be a delay longer than 6 months (some UN organizations have serious delays, others are up-to-date), you should document the action you have taken before retirement regarding your file. This paper trail may help justify to the ATO why your lump sum should not be taxed.

AAFICS advises all UN retirees taking up residence in Australia to seek the assistance of a qualified tax accountant the first time they prepare their personal income tax return. If you choose a tax accountant who does not know what the Undeducted Purchase Price is, we suggest you seek a better informed tax accountant who will know that the UPP of the pension is defined in subsection 27A(1) of the ITAA 1936. The annual deductible amount of the UPP is ascertained in accordance with the formula found in subsection 27H(2). This formula will give a US dollar figure which may be translated to Australian dollars at the annual average exchange rate for the year, available from the ATO website at www.ato.gov.au or by ringing the Superannuation infoline on 13 10 20.

Recipients of UN Pension Fund benefits are not entitled to apply the tax exemptions and offsets resulting from the Australian superannuation reforms that became available on 1 July 2007. However, there is an option to shift part of your UN pension each year into an Australian complying superannuation fund. This takes out part of your taxable UN pension and places it into a fund where there will be a concessional tax rate of 15 per cent. Should your lump sum arrive in your account late and become taxable, it can also be treated the same way. Setting up this complex strategy requires the services of an experienced tax accountant and may be beneficial if your own personal rate of tax is higher than the 15% Australian superannuation fund rate.

You can get a good idea of how much personal income tax you will be assessed annually by going to the ATO website and using their ready reckoner. The same website will also show you the current marginal rates of tax and will provide information on the Medicare levy.

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