Australian Reward Investment Alliance

Tax and your PSS benefit

Who should read this?

All contributing PSS members.

What is in this fact sheet?

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- How are benefits taxed?
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What should I know up front?

It is important that you read the disclaimer at the end of this fact sheet. Before making any decisions, please read the **PSS Product Disclosure Statement** and consider seeking advice from a licensed professional such as a financial planner, accountant or solicitor.

My benefits in the PSS

The PSS is a defined benefit scheme. This means the benefits payable to you are defined in advance according to a formula. This formula is based on your years of membership in the PSS, your contribution rates to the PSS and your final average salary.

Generally you are able to access your benefit as a superannuation lump sum or a combination of lump sum/pension (not less than 50% of lump sum) or pension only.

Both pensions and lump sums are subject to tax and the amount will depend on your age when you take your benefit.

If you take part of your benefit either as a pension and/or lump sum, these payments may include both tax-free and taxable components in the same proportions as they exist in your total benefit.

This fact sheet aims to give you a clear explanation of how PSS contributions and benefits are taxed.

How are contributions taxed?

Member contributions

Your member contributions are classed as non-concessional contributions for tax purposes.

There is a cap on non-concessional contributions **across all your super funds**.

Non-concessional contributions are tax-free up to $150,000 per year (or $450,000 in one or more contributions across three years). Any contributions more than this cap will be taxed at the top marginal tax rate, plus the Medicare levy.

The maximum non-concessional contributions you can pay to the PSS is 10% of your super salary.

Amounts transferred into the PSS from other super funds do not count towards the cap.

Employer productivity contributions

Employer productivity contributions are classed as concessional contributions for tax purposes.

There is also a cap on concessional contributions **across all your super funds**.

Concessional contributions are tax-free up to $25,000 per year. However, between the 2009/10 and 2011/12 financial years, a transitional cap of $50,000 per year will apply for anyone aged 50 or over during this period.

Contributions above these caps will be taxed at the top marginal tax rate plus the Medicare levy and will also count towards the non-concessional contributions cap.

How are benefits taxed?

Table 1 shows the tax treatments applying to PSS lump sums and **Table 2** shows the tax treatments applying to PSS pensions.

The tax on your benefit will depend on whether tax (taxed source) has or has not (untaxed source) been paid on contributions to the PSS and/or earnings on those contributions.

The portion of your benefit from a taxed source generally includes your member contributions and your post-June 1990 productivity contributions.

The portion of your benefit from an untaxed source generally includes your employer-financed component and pre-July 1990 productivity.

Your benefit consists of three components:

- tax-free component
- taxable component – taxed element
- taxable component – untaxed element.

Tax–free component

Your benefit may include a tax-free component. This component consists of your member contributions from your after tax salary, any super co-contributions and any tax free components included in any transfers from other super funds. It may also include a pre 1 July 1983 component if your eligible service started before 1 July 1983.

Taxable component – taxed element

Your benefit may include a taxable component – taxed element. This component consists of your post-June 1990 productivity, earnings on member contributions, earnings on super co-contributions and any transfers from other super funds. This component was previously referred to as 'funded'.

Taxable component – untaxed element

Your benefit may include a taxable component – untaxed element. This component consists of your employer component and any pre-July 1990 productivity contributions and earnings. This component was previously referred to as 'unfunded'.

How is a death benefit super lump sum taxed?

If you die as a contributing or preserved benefit member, a super lump sum may be payable to your eligible spouse and/or children. These lump sums are not subject to tax.

If you do not have eligible dependants, your death benefit will be paid to your estate. We will not deduct any tax and the benefit will be taxed in the hands of the executor.

Death benefits cannot be rolled over.

Rollovers

Instead of paying tax on your super lump sum when you claim your benefit, you can rollover part (or all of it) to a rollover fund. You will receive a **Rollover benefits statement** for each rollover fund you nominate. You need to send the original statement to the rollover fund. You should keep the copy with your tax records for a period of five years.

Table 1 – Tax treatment of lump sums

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="2">Percentage of tax payable on a taxed source</th><th colspan="2">Percentage of tax payable on an untaxed source</th></tr>
<tr><th>Tax-free component</th><th>Taxable component</th><th>Tax-free component</th><th>Taxable component</th></tr>
<tr><td colspan="2" rowspan="2">Under preservation age</td><td rowspan="2">0%</td><td rowspan="2">21.5%</td><td rowspan="2">0%</td><td>31.5%</td></tr>
<tr><td>Top marginal tax rate above $1.205 million threshold</td></tr>
<tr><td rowspan="3">Under age 60 and reached preservation age</td><td>Up to $165,000 at threshold</td><td>0%</td><td>0%</td><td>0%</td><td>16.5%</td></tr>
<tr><td rowspan="2">Above $165,000 at threshold</td><td rowspan="2">0%</td><td rowspan="2">16.5%</td><td rowspan="2">0%</td><td>31.5%</td></tr>
<tr><td>Top marginal tax rate above $1.205 million threshold</td></tr>
<tr><td colspan="2" rowspan="2">Age 60 and over</td><td colspan="2" rowspan="2">0%</td><td rowspan="2">0%</td><td>16.5%</td></tr>
<tr><td>Top marginal tax rate above $1.205 million threshold</td></tr>
</table>

Please note: The $165,000 threshold is calculated across your entire taxable benefit.
The $1.205 million threshold is applicable to the untaxed component of your benefit.
The flood levy may also be applied to lump sums paid during the 2011/12 financial year.

The rollover must be made directly to the rollover fund from the PSS, at the time payment is made. Untaxed amounts will be taxed at 15% by the receiving fund.

Please note: If you claim part of your benefit in cash, you are not able to rollover that amount at a later date.

How are pensions taxed?

Table 2 outlines the tax rates which apply to your pension.

Each fortnight tax is deducted from your pension and each year we will send you a payment summary which shows the amount of tax withheld from your pension (or a statement of earnings if you have not paid tax on your pension).

If you purchase a PSS pension you may be entitled to some tax concessions. We can take these tax concessions into account each fortnight when calculating the amount of PAYG deductions from your pension payment. This means you receive the tax benefit on a fortnightly basis. Once you turn 60 the portion of your pension purchased from a taxed source will become tax free.

We will send you a payment summary, which shows the portion of pension eligible for tax concessions. You may need to include these details on your income tax return.

When can you claim the 'tax-free component'?

You will be entitled to a tax-free component if you purchase a PSS pension with all or part of your member contributions.

Are you entitled to a tax offset?

If you are receiving a PSS pension, you may be eligible for a tax offset based on your age and whether your pension comes from a taxed or untaxed source.

If you are aged between your preservation age and 59 or have retired on invalidity grounds, you will receive a 15% tax offset on your pension from a taxed source. Generally, this is your member component and post-1990 productivity contributions.

Table 2 – Tax treatment of pensions

	Percentage of tax payable on a taxed source		Percentage of tax payable on an untaxed source	
	Tax-free component	Taxable component	Tax-free component	Taxable component
Under preservation age	0%	Your marginal tax rate	There is no tax-free component for pensions from an untaxed source	Your marginal tax rate
Under age 60 and reached preservation age	0%	Your marginal tax rate less a 15% tax offset	There is no tax-free component for pensions from an untaxed source	Your marginal tax rate
Age 60 and over	0%		There is no tax-free component for pensions from an untaxed source	Your marginal tax rate less a 10% tax offset

Tax offset example – Age 60 and over

The following example shows how the tax offset is calculated.

If the untaxed component of your fortnightly pension is $1,000, the offset amount is 10% of $1,000 which is $100.

If your marginal tax rate is 30%, you would pay $300 tax per fortnight before the offset.

You then deduct the offset amount from the amount of tax applicable based on your marginal tax rate i.e. $300 - $100 = $200.

Tax liability for that fortnight would now be $200.

Please note: The Medicare levy is also applied where tax is deducted.
The tax rates applied to your pension change according to your age.
The flood levy may also be applied to pensions paid during the 2011/12 financial year.

If you are age 60 or over, you are entitled to a 10% tax offset on the portion of your pension from an untaxed source. Generally, this is your employer-financed component and pre-July 1990 productivity contributions converted to pension.

If you are receiving a reversionary pension, your pension will be taxed based on the age of the deceased (i.e. primary beneficiary) at date of death and your age at that time:

> If the deceased was aged 60 or over at the date of death, the reversionary benefit will be taxed based on the deceased's age.

> If the deceased was under 60 at date of death, the reversionary benefit will be taxed based on your age.

For example, if the deceased was age 60 or over, you will receive a 10% tax offset on the untaxed components of the benefit, irrespective of your age. However, if the deceased was 59 at the date of death and you were aged 55, you would not be able to receive age 60 tax concessions until you turn 60 years of age.

What action do I need to take?

> You should make sure that we have your tax file number (TFN). Please take a look at your last **Member Statement** to see if we have your TFN recorded. We need your TFN to be able to accept your member contributions.

Also, if we don't have your TFN, your employer productivity contributions (if applicable) and benefits will be taxed at the top marginal tax rate.

> Check that we have your correct eligible service period recorded. This is usually your period of membership but can be an earlier date. We need this to be able to calculate your tax-free component.

- If you are eligible to receive a tax offset on your pension, we will automatically include the offset when calculating the tax on your pension each fortnight.

  You can, however, choose not to claim the offset fortnightly and, instead, receive the benefit for the offset when you submit your tax return each year. If this is the case, please advise us in writing.

Where do I get more information?

For further information about tax on super lump sums and pensions, please contact the Australian Taxation Office (ATO) on **13 10 20** or visit **www.ato.gov.au**.

For information about how any social security entitlements may affect the tax payable on your combined super and social security entitlements, please contact Centrelink on **13 10 21** or vist **www.centrelink.gov.au**.

It is important that you understand your rights to contribute and receive benefits from the PSS. If you need more information, please visit **www.pss.gov.au** or call us on **1300 000 377**.

Glossary

Concessional contributions

These are employer contributions made from your before-tax salary.

CPI-indexed pension

A pension which is indexed half yearly in line with the consumer price index. All PSS pensions are CPI-indexed.

Flood Levy

The government has introduced a temporary flood and cyclone reconstruction levy (flood levy) applying to income for the 2011/12 financial year only. If you have a taxable income over $50,000 in the 2011/12 year and/or the total of the taxable components of any lump sum you receive during the 2011/12 financial year is over $50,000 you will have to pay the flood levy on this income and/or lump sum unless you have an exemption. For further information visit **www.ato.gov.au/floodlevy**

Non-concessional contributions

These are personal contributions made from your after-tax salary.

Post-June 1990 productivity

Fortnightly contributions paid by your employer after June 1990. This is payable from a taxed source.

Pre-July 1990 productivity

Productivity contributions paid by your employer for the period before July 1990. This is payable from an untaxed source.

Preservation age

Preservation age is used to determine the age from which certain tax rates and offsets apply on lump sums and pensions (see table below).

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

Taxable component

This is the part of your benefit subject to tax. It contains both your taxed and untaxed components.

Taxed component

Consists of your post-June 1990 productivity component, earnings on your member contributions, earnings on any super co-contributions and any transfers from other super funds.

Tax-free component

Consists of your member contributions from your after tax salary, any super co-contributions and any tax free components included in any transfers from other super funds. It may also include a pre 1 July 1983 component if your eligible service started before 1 July 1983.

Tax offset

A reduction in tax liability. 'For example, a member over the age of 60 is entitled to a 10% tax offset on the untaxed component of their pension. It is different from a tax deduction, which reduces your taxable income.

Top marginal tax rate (MTR)

The highest income tax rate. For 2011/12 the top marginal tax rate is 45%.

Untaxed component

Consists of your employer component and any pre-July 1990 productivity component and earnings.

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ABN: 48 882 817 243 AFSL: 238069
RSE Licence no: L0001397

Trustee of the Public Sector Superannuation Scheme (PSS)
ABN: 74 172 177 893 RSE: R1004595