



How the 1 July 2007 changes affect you in the PSS

Who should read this?

All contributing PSS members.

If you plan to make any changes to your super arrangements after reading this fact sheet, we recommend that you seek financial advice before making any decisions.

What is in this fact sheet?

- > What you should know up front
- > What are the changes?
- > How do the changes affect my contributions?
- > How do the changes affect my benefit?
- > Is there anything else I should consider?
- > How do I get more information?
- > Glossary

What you should 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.

What are the changes?

Super tax legislation that affects all super funds and their members came into effect on 1 July 2007.

The changes are different based on whether tax has or has not been paid on contributions.

The PSS is a defined benefit scheme and includes both taxed and untaxed components as follows:

1. Member component - this is your own contributions plus Fund earnings. We call this a 'taxed' component because it is money paid from your after-tax salary directly into the PSS to be invested.
2. Productivity component - this is your employer's productivity contributions since 1 July 1990 (less 15% contributions tax) plus Fund earnings. We call this a 'taxed' component because it includes money paid directly into the PSS to be invested. Any productivity contributions paid before 1 July 1990 are treated as an 'untaxed' component.
3. Employer-financed component - determined only when you leave, this amount is the balance remaining after your member and productivity components are deducted from your total lump sum benefit. We call this an 'untaxed' component because it is paid from the Consolidated Revenue Fund (CRF), not the PSS. For tax purposes, it is treated as coming from an 'untaxed source'.

Benefits from a taxed source

The main changes that affect PSS members include:

- > contribution rules and caps, including a higher tax rate on contributions that exceed the caps
- > thresholds and withdrawal rules, including the abolition of tax paid on the taxed component of pensions and lump sums for those aged 60 or over (at the time of payment), and
- > conversion of the pre-July 1983 component (as at 30 June 2007) to a tax-free component.

Benefits from an untaxed source

The main changes for those claiming a benefit at age 60 or over include:

- > a 10% tax offset on pensions, and
- > a threshold for lump sum benefits over \$1.1 million.

This fact sheet explains these changes in more detail.

How do the changes affect my contributions?

Your member contributions

These contributions are classed as non-concessional contributions for tax purposes.

You have the flexibility to choose a contribution rate of between 2% and 10% of your salary (as a whole percentage). Or you can choose not to contribute at all. We understand that your financial needs can vary and the PSS allows you to change your contribution rate at any time.

A cap applies to all non-concessional contributions across all your super funds.

The cap on non-concessional contributions is:

- > \$150,000 per year, or
- > \$450,000 over three years for members under 65. For example, \$300,000 in year one, \$100,000 in year two and \$50,000 in year three.

Contributions up to the cap are tax-free. Any contributions over this cap will be taxed at the top marginal tax rate. Amounts transferred into the PSS from other super funds do not count towards the cap.

Your employer productivity contributions

These contributions are classed as concessional contributions for tax purposes.

In the PSS, your employer makes productivity contributions on your behalf. They will continue to be taxed at 15% when they are received by the PSS. Salary sacrifice contributions are treated in the same way as employer contributions for tax purposes. Although you are unable to salary sacrifice into the PSS, if you make salary sacrifice contributions to other super funds they will be included in the concessional contributions cap.

A cap also applies to all concessional contributions across all your super funds.

From 1 July 2009, the cap on concessional contributions is:

- > \$25,000 per year, or
- > for members aged 50 or over, a transitional limit of \$50,000 per year for three years (financial year 2009/10 to 2011/12).

Contributions above this cap will be taxed at the top marginal tax rate and will also count towards the non-concessional contributions cap.

Example

Rachael (age 45) salary sacrifices \$25,000 into her other super account (not the PSS) and her employer contributes \$10,000 to her PSS account in the same financial year. Therefore, Rachael has made \$35,000 in concessional contributions which is \$10,000 over the cap of \$25,000. This means that \$10,000 will be taxed at the top marginal tax rate and will also count towards Rachael's non-concessional cap, which means that her non-concessional cap of \$450,000 over three years will be reduced to \$440,000.

Super Co-contributions

Super Co-contributions will not be included in either of the caps. For more information on Super Co-contributions see the **Super Co-contributions** fact sheet at www.pss.gov.au

What happens if you or your employer contributes over the caps?

You will be taxed on your excess contributions.

If this happens, you will receive a Tax Assessment from the Australian Taxation Office (ATO) who will also send you a 'release form' which allows you to withdraw money from your super to pay the extra tax.

As the PSS is a defined benefit fund, we may not be able to release funds for this purpose from the benefit you accrue in the PSS. However, if you paid in a transfer amount, it may be possible for it to be used to pay off your tax debt. If your transfer amount is insufficient to cover the debt, you will need to send the assessment to your other superannuation fund (if applicable) or seek advice from the ATO. For more information visit www.ato.gov/super

How do the changes affect my benefit?

Table 1 shows how your benefit will be taxed if you take a lump sum and/or pension from the PSS.

Table 1 - Tax on benefits by age from 1 July 2009		
Under 55 (please note that you can only access your PSS benefit under age 55 in very limited circumstances. For more information see the PSS Super Book at www.pss.gov.au)	Between 55 and 59 (and have reached preservation age)	60 and over
<p>Benefits from a taxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the taxable component will be taxed at 21.5%. Your lump sum may include a tax-free component. > If you take any part of your benefit as a pension, the taxable component will be taxed at your marginal tax rate and you may have a tax-free component. <p>Benefits from an untaxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the taxable component will be taxed at 31.5% up to a threshold of \$1.1 million and at the top marginal tax rate above this amount. Your lump sum may include a tax-free component. > If you take any part of your benefit as a pension, it will be taxed at your marginal tax rate. 	<p>Benefits from a taxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the taxable component will be tax-free up to a threshold of \$150,000 and taxed at 16.5% above this amount. Your lump sum may include a tax-free component. > If you take any part of your benefit as a pension, the taxable component will be taxed at your marginal tax rate less a 15% tax offset and you may have a tax-free component. <p>Benefits from an untaxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the taxable component will be taxed at 16.5% up to a threshold of \$150,000, then 31.5% up to \$1.1 million and at the top marginal tax rate above this amount. Your lump sum may include a tax-free component. > If you take any part of your benefit as a pension, it will be taxed at your marginal tax rate. 	<p>Benefits from a taxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the component from a taxed source will be tax-free. > If you take any part of your benefit as a pension, the component from a taxed source will be tax-free. <p>Benefits from an untaxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the taxable component will be taxed at 16.5% up to \$1.1 million and at the top marginal tax rate above this amount. Your lump sum may include a tax-free component. > If you take any part of your benefit as a pension, the taxable component will be taxed at your marginal tax rate, less a 10% tax offset.

Tax offset example

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.

Table 2 shows the names and tax rates of lump sum components pre-1 July 2007 and names of the components post-1 July 2007.

Table 2 – Tax rates of the lump sum components		
Pre-1 July 2007 Component	Pre 1-July 2007 tax rate	Post-1 July 2007 Component
Pre-July 1983	5% at your marginal tax rate	Tax-free*
Concessional	5% at your marginal tax rate	
Undeducted contributions		
Post-June 1994 invalidity		
Capital gains tax		
Non-qualifying	Your marginal tax rate	Taxable*
Post-June 1983 Taxed		
> Under age 55	20%	
> Age 55 and over	0% up to \$135,590 threshold 15% above \$135,590 threshold	
Post June 1983 Untaxed		
> Under age 55	30%	
> Age 55 or more	15% up to \$135,590 threshold 30% above \$135,590 threshold	
Excessive	Up to 47%	Abolished

* For tax payable on these new components refer to Tables 3 and 4.

Table 3 shows the percentage of tax payable on lump sums based on age and component.

Table 3 – Tax treatment of lump sums					
		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 55 (and have not reached preservation age)		0%	21.5%	0%	31.5%
					Top Marginal Tax Rate above \$1.1 million threshold
55-59 (and reached preservation age)	Up to \$150,000 threshold	0%	0%	0%	16.5%
	Above \$150,000 threshold	0%	16.5%	0%	31.5%
60 and over		0%		0%	

Please note: This includes the Medicare levy of 1.5%. The Medicare levy is also applied where tax is deducted.
The \$150,000 threshold is calculated across your entire taxable benefit.
The \$1.1 million threshold is applicable to the untaxed component of your benefit.

Table 4 shows the percentage of tax payable on pensions based on age and component.

Table 4 – 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 55		0%	Your Marginal Tax Rate	There is no tax-free component for pensions from an untaxed source	Your Marginal Tax Rate
55-59		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
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

Please note: The Medicare levy is also applied where tax is deducted.
The tax treatment on your pension changes according to your current age.

Is there anything else I should consider?

Tax File Numbers (TFN)

It is not an offence not to quote your TFN. However giving us your TFN will have the following advantages (which may not otherwise apply):

- > we will be able to accept all types of contributions (subject to scheme rules)
- > the tax on contributions to your superannuation account/s will not increase
- > other than the tax that may ordinarily apply
- > no additional tax will be deducted when you start drawing down your superannuation benefits
- > it will make it much easier to trace different superannuation accounts in your name so that you receive all your superannuation benefits when you retire.

Other considerations

- > Reasonable Benefit Limits (RBLs) have been abolished.
- > The Senior Australian tax offset may apply to you. For further information visit www.ato.gov.au.
- > The age pension assets test taper rate has changed. For further information visit www.centrelink.gov.au.
- > Any part of your benefit which is taxed will also be subject to the Medicare levy.
- > If you are between the ages of 65 and 74, and you are still employed, you will need to meet a work test to show you are eligible to contribute.
- > You should seek financial advice before claiming a benefit.

Where can I get more information?

EMAIL	members@pss.gov.au
PHONE	1300 000 377
FAX	02 6272 9613
MAIL	PSS PO Box 22 Belconnen ACT 2616
WEB	www.pss.gov.au

Glossary

Concessional contributions

Previously known as deductible contributions. These are contributions made from your before-tax income.

CPI-indexed pension

A pension which is indexed half yearly in line with the consumer price index.

Maximum Benefit Limit

Referred to as your MBL, this is the maximum potential benefit allowed under PSS Rules. Once you reach this limit, you must stop contributing to the PSS.

Non-concessional contributions

Previously known as undeducted contributions. These are personal contributions made after June 1983 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.

Post-June 1994 invalidity component

Paid as a result of total and permanent incapacity and in consequence of termination of employment.

Pre-July 1983 component

The amount of your super which relates to eligible service before 1 July 1983.

Pre-July 1990 productivity

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

Preservation age

The minimum age at which you can take a cash lump sum without any restriction (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

Reasonable Benefit Limits (RBLs)

Before 1 July 2007, the maximum super benefit you were able to receive from all sources at a concessional tax rate. These limits have been removed.

Super Co-contributions

An additional super contribution paid by the Australian Government to people earning less than \$61,920 who make after-tax contributions. For more information visit www.ato.gov.au/super/

Taxable component

This includes concessional contributions made since 1 July 1983. It can contain taxed and untaxed amounts.

Taxed component

Consists of your post-June 1990 productivity, member contributions, Super Co-contributions and transfers from other super funds. This component was previously referred to as 'funded'.

Tax-free component

This may include contributions made before 1 July 1983, non-concessional contributions made since 1 July 1983 and post-June 1994 invalidity amounts.

Tax offset

A reduction in tax liability. Often a tax offset is described as a percentage, for example, an offset of 10% to a pension. It is different from a tax deduction, which reduces your taxable income.

Top Marginal Tax Rate (MTR)

The highest income tax rate. For 2009/10 the top MTR is 45%.

Untaxed component

Consists of your employer component and any pre-July 1990 productivity contributions. This component was previously referred to as 'unfunded'.