



# The facts about Tax concessions for PSS pensions

## Who should read this

This fact sheet provides general information about tax concessions available to pensioners who are receiving a Public Sector Superannuation Scheme (PSS) pension.

## What is in this fact sheet

- > What tax concessions are available?
- > What is a tax offset?
- > Superannuation pension tax offset - 15% for members aged between 55-59 or retired on invalidity grounds
- > Superannuation pension tax offset - 10% for members aged 60 or over
- > Tax free component for pensions started on or after 1 July 2007
- > Tax free component for pensions started before 1 July 2007
- > Where can you get more information?
- > Glossary

## What tax concessions are available?

There are two tax offsets that may be available depending on your age, as well as a tax free component. Specifically these components are:

- > a 10% tax offset on the untaxed component of a pension paid to members aged 60 and over;
- > a 15% tax offset on the taxed component of a pension paid to members aged between 55 and 59 and to spouses and invalidity pensioners;
- > a tax free component.

## What is a tax offset?

A tax offset reduces the amount of tax you would otherwise pay.

### Example of 10% tax offset

Take the example of a fortnightly pension of \$1,448 which is comprised of \$145 taxed component and \$1,303 untaxed component.

If you are aged 60 or over you will be entitled to a 10% tax offset on the untaxed component of \$1,303. This results in a tax offset of \$130 per fortnight.

If you were paying \$381 tax per fortnight before the offset, you would deduct the offset from the amount of tax applicable i.e.  $\$381 - \$130 = \$251$ . You would now pay \$251 per fortnight in tax.

### Superannuation pension tax offset - 15% for members aged between 55-59 or retired on invalidity grounds

If you have taken any part of your benefit as pension from a **taxed source**, the taxable component will be taxed at your marginal tax rate less a 15% tax offset.

Components of your benefit from a taxed source are:

- > employer productivity contributions which are taxed on receipt in the PSS Fund and the earnings on those employer productivity contributions.
- > any excess member contributions paid prior to 30 June 1983; and
- > the earnings on all your member contributions.

You are entitled to a 15% tax concession on the pension purchased with these amounts.

The amount of pension derived from a taxed source is the 'portion eligible for a tax offset'.

The part of your pension from an **untaxed source** (i.e. the pension derived from the untaxed employer component) will be taxed at your marginal tax rate.

Once you reach 60 years of age you will be eligible for a 10% tax offset which will be calculated on the total amount of the untaxed portion of your pension.

This 15% tax offset will be directly applied to your fortnightly pension, unless you advise us in writing that you wish to claim the amount annually in your tax return.

### Superannuation pension tax offset - 10% for members aged 60 or over

The part of your pension purchased with amounts from a **taxed source** (i.e. those listed below) becomes **tax free**. (Before you turned 60 you were eligible for a 15% tax offset).

Components of your benefit from a taxed source are:

- > employer productivity contributions which are taxed on receipt in the PSS Fund and the earnings on those employer productivity contributions.
- > any excess member contributions paid prior to 30 June 1983 and the earnings on all your member contributions.

After age 60 the part of your pension purchased with amounts from an **untaxed source** (i.e. the pension derived from the untaxed employer component) will be taxed at your marginal rate less a 10% offset.

The amount of pension derived from an untaxed source is the portion eligible for a tax offset.

This 10% offset will be automatically applied to your fortnightly pension, unless you advise us in writing that you wish to claim the amount annually in your tax return.

### Tax free component for pensions started on or after 1 July 2007

If your pension started on or after 1 July 2007, the pension will have a **tax free component**. The tax free component of your pension will be made up of:

- > the member contributions paid to the scheme from 1 July 1983; and
- > the crystallised amount.

The crystallised amount is based on the pre-1983 portion of your member contributions and earnings and taxed employer contributions (productivity) and earnings consolidated as at 1 July 2007.

## Reporting the tax-free component

We will work out your tax free component and take it into account when calculating your pension. When completing your tax return you do not need to report the tax free component unless you advised us in writing that you would like to claim this annually.

## Tax free component for pensions started before 1 July 2007

Before 1 July 2007, persons being paid a pension claimed the undeducted purchase price (UPP) of the pension, as a deductible amount in their tax return each year. From 1 July 2007, the UPP is part of the tax free component. The old annual deductible amount has been converted to a tax free amount and taken into account each pension payment.

We will work out your tax free component and take it into account when calculating your pension. When completing your tax return you do not need to report the tax free component unless you advised us in writing that you would like to claim this annually.

## Where can I get more information?

EMAIL [pensions@pss.gov.au](mailto:pensions@pss.gov.au)

PHONE 1300 001 777

FAX 02 6272 96134

MAIL PSS  
PO Box 22  
Belconnen ACT 2616

WEB [www.pss.gov.au](http://www.pss.gov.au)

## Glossary

### CPI-indexed pension

This is a pension that was financed by your employer and comes from an untaxed source (known as unfunded before 1 July 2007). It is indexed half yearly in line with the consumer price index.

### Tax-free component

You pay no tax on the tax-free component of your pension. The tax-free component of your pension, from a taxed source, is made up of several components existing prior to 1 July 2007. The most common are:

- > pre-July 1983 component
- > non-concessional (known as undeducted before 1 July 2007)
- > post-June 1994 invalidity component

### Taxable component

This component consists of what was known as the post-June 1983 component, prior to 1 July 2007. This component of your pension is taxed based on your age and whether your pension comes from a taxed or untaxed source.

### 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 reduction, which reduces your taxable income.

### Marginal tax rate

The top rate of income tax that is charged to individuals on their last dollar of earnings. The rate also indicates how much tax you would save on each dollar of income that does not need to be reported on your tax return.