



Tax and your PSS benefit

Who should read this?

All contributing PSS members.

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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.

Your 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 the age when you take your benefit.

If you take part of your benefit either as a pension and/or lump sum, these payments will include both tax-free and taxable components in the same proportions as 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**. While you are unable to salary sacrifice into the PSS, salary sacrifice arrangements with other super funds will be included in this cap.

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 this cap 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?

Tables 1, 2 and 3 show the different tax treatments for PSS benefits.

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.

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. It may also include a pre-July 1983 taxed component (if you had any contributory service before 1 July 1983), which became a fixed amount on 1 July 2007.

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 during your PSS membership, a super lump sum may be payable to your eligible spouse and/or children.

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

Death benefits cannot be rolled over.

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 – 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	Tax-free	
Post-June 1994 invalidity		
Capital gains tax		
Non-qualifying	Your marginal tax rate	Taxable*
Post-June 1983 taxed	20%	
> Under age 55		
> Age 55 and over	0% up to \$135,590 threshold 15% above \$135,590 threshold	
Post June 1983 untaxed	30%	
> Under age 55		
> 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 – 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		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%	16.5%
					Top marginal tax rate above \$1.1 million threshold

Please note: 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.

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 rollover fund the original statement. You should keep the copy with your tax records for a period of five years.

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 16.5% by the receiving fund.

If the rollover fund is a super fund, you can leave your lump sum in the fund as long as the fund's rules allow.

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 4 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 your member and/or productivity contributions. A 'tax-free component' reduces your taxable income and can be claimed on a fortnightly basis irrespective of age.

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 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.

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 date of death, the reversionary benefit will be taxed in the same manner as the deceased irrespective of your 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.

Super surcharge

Even though the super surcharge has been abolished, we must report outstanding super surcharge debts to the Australian Tax Office (ATO).

Your **Member statement** gives details of your surcharge debt if you have one. You are able to pay in part or in full, or you can have it deducted from your total benefit when you claim your benefit.

If you choose to pay the debt from your PSS pension, the payment is calculated by converting the surcharge debt to a fortnightly pension reduction amount and reducing the pension by this amount, for the life of the pension.

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.

Again, this will show on your last **Member statement**.

- > If you are between age 55 and 59 and eligible to receive a 15% offset on the part of your pension from a taxed source, you need to decide if you want this offset paid fortnightly or annually.
- > If you are aged 60 or over and eligible to receive a 10% tax offset on the part of your pension from an untaxed source, you need to decide if you want this offset paid fortnightly or annually.

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 your social security entitlements and how these affect your super, please contact Centrelink on **13 10 21** or visit 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

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. All PSS pensions are CPI-indexed.

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 before 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

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 marginal tax rate is 45%.

Untaxed component

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