Info sheet
July 2018

SUPERANNUATION TAX

While superannuation enjoys many tax advantages, some tax still applies at various stages in the super life cycle.

How much tax do I pay?

Super is taxed at various stages of its life cycle. The type and amount of tax that applies will vary depending on your age, the contributions you make, your benefit amount and whether you take it as a lump-sum or pension.

Contributions tax

A 15% contributions tax applies to all concessional contributions. Concessional contributions are those put into your super from before-tax income and include:

- employer contributions
- salary sacrificed contributions
- contributions you claimed as a tax deduction.

The 15% contribution tax is deducted from contributions and paid directly to the Australian Taxation Office (ATO). However, if you have not given us your tax file number you could be taxed at the top marginal rate of 47% (including the Medicare levy).

Are you a higher-income earner?

If your total annual income exceeds $250,000, Division 293 tax of an additional 15% applies to any before-tax (concessional) super contributions. This means you pay 30% tax on concessional contributions instead of the standard 15%.

If your concessional contributions push your total annual income over the $250,000 threshold, the additional 15% tax will only apply to those amounts in excess of $250,000 up to the concessional contributions cap.

Total income is defined in a similar way to that for Medicare levy surcharge purposes.

Concessional contributions cap

The Australian Government puts a limit on the amount of before-tax money (concessional contributions) you can put into your super. This is known as the concessional contributions cap and it is currently $25,000 for everyone. Exceeding the cap could mean paying higher tax.

What are my options if I go over my concessional contributions cap?

Excess concessional contributions are included in your taxable income, taxed at your marginal tax rate plus an excess concessional contributions charge. If you exceed your cap for the financial year you can elect to withdraw up to 85% of your excess concessional contributions (15% contributions tax has already been paid) from super. The Australian Taxation Office will contact you to explain your options.

If there's a chance you could exceed your cap you should talk to your payroll area or contact us.

Defined benefits

If you have a defined benefit a specific formula is used to work out the value of concessional contributions that have been made to fund your defined benefit and these are referred to as your notional taxed contributions (NTC).

If your NTC exceeds the concessional contributions cap your contributions are still considered to be within the cap and will not be subject to additional tax. However, any additional concessional contributions on top of the NTCs in excess of the concessional contributions cap will be subject to the additional tax. Download the relevant defined benefit guide from lgiasuper.com.au to find out more about the NTC calculation.

Tax deduction for personal contributions

Anyone under age 65 and those aged 65 to 74 who satisfy the work test can claim a tax deduction for contributions made from after-tax money. If claimed as a tax deduction these contributions will count towards the concessional contributions cap and be taxed at 15%.

What if I don't reach the concessional contributions cap?

From 1 July 2018, anyone with a total superannuation balance less than $500,000 at the end of a financial year (30 June), can carry forward the unused portion of their concessional contributions cap on a rolling basis for a period of 5 years. This means from 1 July 2019, you can add the unused portion of your annual concessional contribution cap from the 2018/19 financial year to your 2019/20 annual cap. Amounts not used will expire after 5 years.

Non-concessional contributions cap

Non-concessional contributions are contributions made from income you have already paid tax on. These include:

- member contributions you are required to make as part of your employment (if applicable) as long as these are paid from your after-tax salary
- personal contributions you make as a lump-sum or on a regular basis
- any spouse contributions you receive.

The Australian Government limits the amount of after-tax money you can pay into your super. This is known as the non-concessional contributions cap and it is currently set at $100,000 for the 2018/19 financial year. If you are eligible and you are under age 65, you can 'bring forward' the next 2 years' non-concessional contributions caps. This means you can contribute up to $300,000 over a 3-year period. The amount can be contributed as one lump sum or spread over the 3 years.

If you triggered the bring-forward rule in the 2016/17 financial year but did not use the full non concessional bring-forward cap before 1 July 2017, the bring-forward amount will be readjusted to reflect the lower $100,000 annual cap.

Year triggered	Maximum bring-forward amount
2016/17	$380,000
2017/18 onwards	$300,000

Upper threshold for non-concessional contributions

Anyone with a total superannuation balance of $1.6 million or more is unable to make non-concessional contributions. If you have under $1.6 million in super, you can make up to $100,000 a year in non-concessional contributions depending on your total superannuation balance at 30 June in the previous financial year. Access will be restricted for balances of $1.4 million or more, as shown in the following table.

You can view your total superannuation balance using the ATO's online services through your myGov account. Go to www.ato.gov.au for details.

Total super balance on 30 June 2018	Non-concessional contributions cap for 2018-19 (first year)	Bring-forward period
Less than $1.4 million	$300,000	3 years
$1.4 million to less than $1.5 million	$200,000	2 years
$1.5 million to less than $1.6 million	$100,000	No bring-forward period. General non-concessional contributions cap applies
$1.6 million	Nil	N/A

What if I exceed the non-concessional contributions cap?

Contributions made above the cap will be taxed at the maximum rate of 47% (including the Medicare levy). If you go over your non-concessional contributions cap you can elect to withdraw any excess contributions and associated earnings from your super as determined by the ATO.

$1.6 million transfer balance cap

There is a $1.6 million cap on the amount of money that can be transferred from super into a pension (where the investment earnings are tax free). The transfer balance cap applies to current retirees and anyone yet to enter the retirement phase.

Amounts above the cap are subject to a transfer balance tax based on 'notional earnings determined by a legislative formula'. The tax is payable to the ATO for each day the amount remains in excess of the cap.

To keep your balance below the $1.6 million transfer balance cap you can either transfer the excess amount to an LGIAsuper Accumulation account where earnings are taxed at 15% or withdraw the money from your LGIAsuper Pension account.

The transfer balance cap is indexed in $100,000 increments and will grow in line with the consumer price index.

Additional income tax rules apply to defined benefit income streams in excess of $100,000.

Investment earnings tax

Money put into your super account is invested, and investment earnings are taxed at a maximum of 15%. However, the actual tax rate payable by super funds is generally less than 15% because of allowable deductions, tax credits and offsets. The investment earnings applied to your account have already had fees and taxes deducted. Pension account investment earnings remain tax free.

Investment earnings for your Transition to retirement pension account (TTR) will be taxed at a maximum rate of 15% in the fund (the same rate that applies to earnings from an Accumulation account). The investment earnings applied to your TTR have already had any fees and taxes deducted.

Tax on lump-sum withdrawals

Any lump sum you withdraw from LGIAsuper is generally made up of two components: tax-free and taxable. You cannot choose the tax components your withdrawal comes from as the Australian Government requires payments to be proportional.

Tax free

The tax-free component is always tax free and includes any pre-July 1983 component at 30 June 2007 and all after-tax contributions paid in, such as:

- voluntary or extra member contributions for which no tax deduction has been claimed
- super co-contribution
- spouse contributions received
- any tax-free components of money transferred from other super funds to LGIAsuper
- any tax-free components of eligible termination payments transferred to LGIAsuper
- any amounts that are tax-free as a result of total and permanent disability or terminal illness
- capital gains tax-exempt contributions (lifetime limit).

Taxable

The taxable component generally includes:

- employer and salary sacrifice contributions
- member contributions for which a tax deduction has been claimed
- investment earnings.

If you are...	Taking a lump sum
under preservation age	taxed at 22%*
between preservation age and 60	tax free for the first $205,000. Remainder taxed at 17%*
60 or over	tax free

* includes Medicare Levy

Tax on pension payments

Pension payments may be included in your assessable income for tax purposes, however there are tax advantages that apply to superannuation pension income that do not apply to salary (e.g. a tax-free component, 15% tax offset and tax-free investment earnings if you have an LGIAsuper Pension account).

between preservation age and 60	taxable component of pension income will be taxed at marginal tax rates with a 15% tax offset applied.
60 or over	tax free

See our *Pension accounts Product Disclosure Statement* for more details.

Tax on death benefits

Death benefits are tax-free if paid to a dependant. For tax purposes a dependant is:

- a spouse (married, de facto or same sex partner)
- a child under the age of 18 years (including step-children, adopted children, ex-nuptial children or anyone who fits the definition of a child under the Family Law Act 1975) anyone who was financially dependent on you at the time of your death
- a person who you shared an interdependent relationship with.

If the benefit is paid to someone who is not considered a dependant, the taxable portion of the benefit is taxed at 17% including the Medicare levy. The untaxed component is taxed at 32% including the Medicare levy. The taxed and untaxed components are calculated at the time of payment.

If you are over 60 years of age when you die, you still have a taxable component for death benefit purposes.

Death benefits taken as a reversionary pension are taxed differently depending on your age when you die, as well as the age of your reversionary beneficiary. If you are over age 60 at the time you die, the reversionary pension will be tax exempt. If you are under age 60 at the time you die, the reversionary pension will be taxed at marginal tax rates plus the Medicare levy until your reversionary beneficiary reaches age 60, at which point it becomes tax free. Contact us for more information.

Tax on disability or terminal illness

If you suffer a total and permanent disability before the age of 60, an additional portion of your benefit will become tax free. If you become terminally ill, your full benefit will be tax free.

Surcharge

The superannuation surcharge is a tax that applied, until 1 July 2005, to the employer contributions made for higher income earners. For more information, contact us for a copy of the *Superannuation surcharge info sheet*.

Any questions?

We're here to help. Our trusted and reliable team can work with you to grow your savings and plan a strong financial future. Call us on **1800 444 396** or visit our website at **lgiasuper.com.au**.

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