

Taxation is a fact of life, and most of us are aware of the tax we pay on income from work. What is not so familiar is the taxation that applies to superannuation. There are many tax concessions available through super, as encouragements to help you save for retirement.

This Fact sheet explains the taxation applied to your contributions, investment returns and benefit payments.

### ■ Tax on super contributions

Contributions can be made to your ESI Super account by your employer, yourself, your spouse or by the Government. These contributions may be taxed differently, depending on how they were taxed before going into a superannuation fund.

#### Concessional contributions (before tax)

Concessional contributions are the contributions you and your employer make into super before tax is taken out of your wages. These contributions are subject to a concessional tax rate of 15% that is applied when they go into the Fund, provided the Fund has been informed of your Tax File Number (TFN). Concessional contributions include:

- Employer contributions (including Superannuation Guarantee (SG) and award contributions).
- Salary Sacrifice contributions made by your employer on your behalf.
- Notional contributions for a Defined Benefit interest.
- Personal contributions for which a tax deduction is claimed e.g. self-employed members.
- Other amounts that are included in assessable income for the fund, such as the shortfall component of a super guarantee charge, paid by the ATO to the Fund.

#### Example

An employer pays \$250 per month in SG contributions for one of their employees, Sarah. ESI Super receives the \$250, it is credited to Sarah's account and 15% tax is deducted (\$37.50), leaving her with \$212.50.

As before tax contributions are taxed concessional going into and out of super (with 0% tax on withdrawals if you are over 60), the Government has placed limits on how much can be contributed in a financial year. The consequences for exceeding the caps on contributions can be very costly, so it is important to monitor how much has been contributed.

If you exceed the contribution cap, excess contributions will be subject to an additional tax (on top of the 15% tax paid on before tax contributions) of 31.5%, including Medicare levy. This means any contributions above the cap will be taxed at 46.5% and they will also count towards the non-concessional contributions cap. If you exceed both caps, a total of up to 93% tax could potentially apply to your excess contributions.

For more information on concessional contributions for accumulation members and Defined Benefit (DB) members, including the contribution cap, please refer to the *Contributions Fact sheet* and the *Concessional contributions (including notional taxed contributions) for Defined Benefit members Fact sheet* available on our website – [esisuper.com.au](http://esisuper.com.au).

#### Non-concessional contributions (after tax)

Non-concessional contributions are personal after tax contributions made into super and spouse contributions received. These contributions are not taxed going into the fund. Non-concessional contributions include:

- Personal after tax contributions (regular or lump sum).
  - Spouse contributions.
  - Excess before tax (concessional) contributions.
- The following contributions are not taxed going into the fund, but do not count as a non-concessional contribution:
- Government co-contribution.
  - Personal injury payments where no tax deduction is claimed.
  - Small business sale proceeds up to the capital gains tax cap of \$1 million.

Non-concessional contributions are also subject to contribution caps, limiting the amount that can be contributed.

If you make super contributions that together exceed the contribution cap, you will be taxed at the top marginal tax rate of 45% plus Medicare levy of 1.5%. Super funds report all contributions made on your behalf to the Australian Taxation Office (ATO) and the ATO monitors these contributions to determine when a cap has been breached.

For further information on non-concessional contributions for accumulation members, including information on contributions cap, please refer to the *Contributions* Fact sheet available on our website – [esisuper.com.au](http://esisuper.com.au).

### Tax on superannuation investment returns

In order to encourage Australians to invest more for retirement through super, the Government provides tax concessions on the investment returns earned by super funds. This means that super funds pay less tax than non super investors on the same investment.

Investment earnings (for example dividends, interest, or rent) outside of superannuation will generally attract tax at your marginal tax rate, which can be up to 46.5%, depending on your assessable income.

The taxation rate for super fund investment earnings is capped at 15%, and the effective rate applied may sometimes be lower. This tax concession is included in the investment returns calculated and applied to your account as crediting rates or unit prices. Super members do not pay tax directly on the investment returns they receive in the fund, and these do not need to be declared on your tax return.

Superannuation income stream investment earnings are tax free.

Since 1 July 1999, all super contributions are preserved until you reach 'preservation age', or retire after age 60. This includes any investment earnings on your super account.

## ■ Tax on your super benefits

The tax treatment of super benefits is intended to encourage members to wait until retirement to access their benefit. Super benefits paid to members aged 60 and over are generally tax free. This includes both lump sum payments and income streams.

For those under age 60, who are eligible to receive their super, the benefits are divided into two components. These are referred to as the taxable and tax free components.

**Tax free:** This component includes any non-concessional contributions made after 1 July 2007, and a crystallised\* segment representing amounts in your account as at 1 July 2007.

**Taxable:** This component is the remainder of your account, and includes any concessional contributions made.

*\*The crystallisation process was based on the composition of the previous components of a member's account in relation to the undeducted, pre and post 83 monies, invalidity component and CGT exempt as at 30 June 2007.*

The tax that you pay on each of these components will vary, according to your age or circumstances.

Age or circumstance of payment	Taxable component	Tax free component
Total benefit under \$200	Tax free	Tax free
Aged under preservation age	21.5% (including Medicare levy)	Tax free
Aged between preservation age and age 59	Tax free up to the low rate threshold of \$150,000 for the 2009/10 financial year. Amounts above \$150,000 for 2009/10 will be taxed at 16.5% (including Medicare levy).	Tax free
Age 60 and over	Tax free	Tax free
Departed temporary residents (DASP payment)	35%	Tax free

### Your preservation age depends on your date of birth:

Date of birth	Preservation age
Before 30 June 1950	55
Between 1 July 1960 to 30 June 1961	56
Between 1 July 1961 to 30 June 1962	57
Between 1 July 1962 to 30 June 1963	58
Between 1 July 1963 to 30 June 1964	59
After 30 June 1964	60

## ■ Your Tax File Number

It is important that we have your TFN on file. All of the tax information discussed in this fact sheet applies only if your TFN is provided.

Though it is not compulsory, without your TFN:

- ESI Super cannot accept any after tax (non-concessional) super contributions.
- You may have to pay up to 46.5% tax on any concessional contributions (employer SG or salary sacrifice contributions) received.

## ■ Claiming tax deductions for super contributions

Some people may be eligible to claim a tax deduction on after tax contributions made to super. These are generally individuals who are entirely or significantly self employed (earn less than 10% of income from an employer). The *Deduction for personal super contributions* Form is available on the ATO's website. You submit this form to your super fund as part of the claims process. Contact ESI Super for more information about claiming a tax deduction for super contributions.

## More information

Call us on **1300 363 240**

Email us at [super@esisuper.com.au](mailto:super@esisuper.com.au) or visit [esisuper.com.au](http://esisuper.com.au)

### Disclaimer

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