

# Concessional contributions

(including notional taxed contributions)  
Defined Benefit members

## Fact sheet

### ■ Who should read this Fact sheet?

The information in this Fact sheet is provided for Defined Benefit (DB) members of ESI Super. This Fact sheet has been prepared to explain before tax contributions, and how much you can contribute to super in a financial year. This will assist members who want to monitor their concessional super contributions annually to ensure that they do not exceed their concessional contributions cap.

This Fact sheet will also interest anyone who wants to know how notional taxed contributions are calculated.

### ■ Before tax contributions (referred to as concessional contributions)

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:

- Compulsory employer contributions (including the Superannuation Guarantee (SG) and Award contributions)
- Any salary sacrifice contributions you arrange with your employer to be made to your ESI Super account
- Personal contributions for which a tax deduction is claimed e.g. self-employed members
- The notional taxed contributions related to your DB account (including compulsory contributions if they are salary sacrificed).

### ■ What limits (caps) apply to my before tax contributions?

As before tax contributions are taxed concessionally going into and out of super (with 0% tax on withdrawals if you are over 60), the Government has placed caps on how much can be contributed in a financial year. These caps vary depending on your age on the last day of the 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 are under age 50 on the last day of the financial year, your total before tax contributions are subject to a cap of \$25,000 in the 2009/10 financial year. The \$25,000 cap will be indexed to the average weekly ordinary time earnings (AWOTE) and rounded down to the nearest multiple of \$5,000. This means that indexation may not apply every year.

If you are aged 50 or over on the last day of the financial year, there is a three year transition period between 1 July 2009 and 30 June 2012, which allows an annual cap of \$50,000. This \$50,000 cap will not be indexed.

If you are considering making before tax contributions to increase your retirement savings and reduce your taxable income, you should note the caps placed on your before tax contributions in any financial year. If you exceed the contributions 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.

### ■ It is your responsibility to monitor and control your super contributions each year

Whether or not you have exceeded your contributions cap in a financial year will be evaluated by the Australian Taxation Office (ATO) from the information ESI Super (and any other fund you may be in) is required by law to provide to the ATO. For DB members, this monitoring is more complex due to the inclusion of notional taxed contributions as part of your concessional contributions cap.

Because it is your responsibility to monitor your contributions, you may wish to access more information throughout the financial year. You will be able to see some contributions, excepting your notional taxed contributions, on either your payslips or via your Member Online Access. You will also need to account for your notional taxed contribution component separately.

ESI Super has provided a contributions calculator for DB members on the web at [esisuper.com.au](http://esisuper.com.au) to help you estimate your annual concessional contributions, including your notional taxed contributions.

**As ESI Super is not able to warn you about a potential breach of the caps, you should regularly check your total contributions throughout the year.**

## ■ What is a notional taxed contribution?

A notional taxed contribution for DB members is an amount of money that is considered to have been paid into your super account by your employer, irrespective of the actual amount paid. This results from the structure of DB super where employers must contribute an “actual” amount of money to ensure your benefit is fully funded at all times, irrespective of any salary changes or investment market fluctuations.

**Please note:** Notional taxed contributions associated with your DB super count toward your concessional contributions cap. A formula is used for calculating this amount. See Table 1 on this page.

## ■ What makes up my DB account?

- **Employer contributions** – Your employer makes super contributions, determined by ESI Super’s Actuary, at a rate that will ensure your benefits are fully funded
- **Member contributions** – Member contributions are compulsory, and for most members, this will be at the rate of 5% (after tax) or 5.88% (before tax) of your superannuation salary. Unless otherwise determined, member contributions will be deducted from your earnings by your employer.

## ■ How are notional taxed contributions calculated?

Working out the amount of your contributions is less straightforward than it is for members belonging to other categories of the Fund. This is because your employer contributions that are counted towards the cap are made up of a “notional amount” which is calculated by a formula. They are not the actual contributions being made by your employer to fund your defined benefit. The notional taxed contribution amount that counts towards your cap is calculated using the formula shown in Table 1.

The method used to calculate your notional contributions is determined by ESI Super’s Actuary in line with legislation and guidelines established by the Government and the Australian Institute of Actuaries.

**Table 1**

For ESI Super Defined Benefit members the calculation of <b>notional taxed contributions</b> is as follows:	<b>Please note:</b> This is the basic formula to estimate your <b>notional taxed contributions</b> to be counted towards your concessional contributions cap. There are other implications if you are a Defined Benefit member who:
<b>1.2 x [(NER x S x D/365) – M]</b>	
<b>WHERE:</b>	
<b>1.2</b> – Is a factor provided by the Government	→ Works part-time → Changes benefit category during the year → Receives a benefit augmentation during the year (this could be any other superannuation benefit increase provided by your employer).
<b>NER</b> – is the New Entrant Rate for each employer, worked out by an actuary	Special rules apply for these members, please contact ESI Super if you believe any of these may apply to your situation.
<b>S</b> – Is your annual superannuation salary fixed on 1 July of each new financial year	
<b>D</b> – Is the number of days in the current year that you are a DB member of the Fund.	
<b>M</b> – Is the 5% (after tax) non-concessional contributions made in the year.	
The <b>NER</b> for ESI employers:	
<b>Employer</b>	<b>NER</b>
NRG Gladstone members	12%
All other DB members in ESI Super	11%

**Please note:** For the purpose of calculating your notional taxed contribution amount, it is important that you do not confuse superannuation salary with your Final Average Salary (FAS) shown on your Annual Statement. FAS is used to calculate your DB benefit and could be averaged over one or two years. Please contact ESI Super for more information about DB salaries.

## ■ How do I work out my total concessional contributions for the year?

To answer your question, let’s look at an example of Joan, who is a working member of ESI Super.

### **Example:**

Joan is aged 49 and a Defined Benefit member in ESI Super. She is employed for the full year and her superannuation salary on 1 July (as advised by her employer) is \$100,000. She pays her compulsory 5% member contribution as a salary sacrifice contribution. She is also salary sacrificing an additional 15% of her gross salary to super and she secures a salary increase to \$105,000 on 1 January (half way through the financial year).

## Calculating Joan's before tax contributions for the year

The total of Joan's before tax contributions for the year to 30 June will be the sum of her:

- Notional contributions, and
- Additional salary sacrifice contribution of 15% of salary.

### (1) Joan's notional contributions

**Notional contribution** =  $1.2 \times [(NER \times S \times D/365) - M]$

**NER** = 11% The New Entrant Rate for her employer

**D** = 365 She was a DB member for the full year

**M** = \$Nil Joan salary sacrifices her compulsory 5% member contributions

**S** = \$100,000 Joan's salary as at 1 July is used for this calculation

**Notional contribution** =

$$1.2 \times \left[ \frac{(11\% \times \$100,000 \times 365)}{365} - \$Nil \right] = \$13,200 \text{ (1)}$$

PLUS

### (2) Joan's additional salary sacrifice contributions

1 July to 31 December

$$\text{Salary sacrifice contributions} = 15\% \times \frac{\$100,000}{2^*} = \$7,500$$

1 January to 30 June

$$\text{Salary sacrifice contributions} = 15\% \times \frac{\$105,000}{2^*} = \$7,875$$

Total salary sacrifice contributions = \$15,375 (2)

**Joan's total concessional contributions (1) + (2) = \$28,575**

*\*For the purposes of this calculation, each half year is considered to have the same number of days.*

As Joan is 49 years of age, her concessional contributions cap is \$25,000. This means she has exceeded her cap by \$3,575 (\$28,575 - \$25,000) which leads to additional tax of \$1,126 (an additional 31.5% on top of the normal 15% tax payable on concessional contributions).

The excess of \$3,575 also counts towards her non-concessional contributions cap. If Joan has the same contributions next year, she will not exceed the cap as she is then age 50 and the higher \$50,000 cap applies (up to 30 June 2012 only).

## ■ What are the special conditions for Defined Benefit members whose notional contribution alone will put them above the concessional contributions cap?

Notional taxed contributions that exceed the concessional contributions cap will generally be treated as though they are equal to the cap. This means that you may not be liable for excess contributions tax on these contributions. Conditions apply and you must have been a DB member since 12 May 2009.

## ■ How is the ATO advised about my notional taxed contributions?

ESI Super reports the total amount of your employer contributions to the ATO each year. This report includes your notional taxed contribution amount.

## ■ How will I be notified if I exceed the cap?

The ATO determines if you have breached the cap. If you exceed the contributions caps, the ATO will assess the amount of excess contributions tax that will apply. The ATO will then issue you with a tax assessment notice in writing. If you are dissatisfied with the ATO's assessment, you may lodge an objection to it or, in special circumstances, apply within 60 days to have contributions disregarded or reallocated to another financial year. The ATO may amend the assessment within four years of the original assessment.

## ■ How do I pay the excess concessional contributions tax?

There are three payment options:

- **Pay the tax yourself and ask your super fund to release the money to you.** If you choose this payment option, you will have 21 days from receiving the assessment notice to pay the excess tax. Use the *Voluntary Release Authority* (obtained from the ATO) to ask your super fund to release the money from your Accumulation account to you. Any tax unpaid after 21 days may be subject to a General Interest Charge (GIC).
- **Pay the tax amount out of your own pocket and don't ask for a refund.** Pay the tax yourself without drawing on your super.
- **Pay the tax amount from your Accumulation superannuation account.** A *Voluntary Release Authority* must be provided to the super fund that you wish to pay the excess contribution tax from (with exception to a DB fund) within 21 days of the date on the *Voluntary Release Authority*. After 21 days, the authority will expire and you will have to apply for a new one to withdraw your excess contributions tax. You may also be subject to the GIC.

**Please note:** superannuation money cannot be released from your DB super to pay excess contributions taxes. You must have Accumulation money available for this purpose.

## ■ Other information and tips for managing your concessional contributions cap

- If you choose to salary sacrifice a percentage of your earnings (rather than a dollar amount per pay period) to super, then any salary increases that you receive during the year will most likely increase your concessional contributions as well. Be aware if you are close to the cap.
- Sometimes under special conditions, employers agree to increase a superannuation benefit. Such increases will count towards your concessional contributions cap and would add to any other concessional contributions you have already made.
- ESI Super may not be provided with details of your superannuation salary that will apply at 1 July until the end of the financial year. If you're planning to make before tax contributions that may take you closer to your cap, then before doing so, you are advised to request, from your employer, your superannuation salary as at 1 July to use in your calculations.
- For more information about non-concessional contributions, please see our separate Contributions (Accumulation members) Fact sheet.

### 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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