

Tax and superannuation - contributions and leaving employment benefits

Why is super seen to be attractive?

Superannuation may be taxed favourably, (depending on your tax bracket) because the Australian Government wants to encourage people to save during their working life so they can, as much as possible, independently fund their retirement without relying on social security.

The government therefore offers attractive tax concessions (within limits) on money invested in superannuation. These are as follows:

- > On concessional contributions – a maximum tax rate of 15%;
- > On investment earnings – a maximum tax rate of 15%; and
- > On benefit payments – paid to you in cash or as an income stream – Nil after age 60. (Before age 60, concessional rates may apply, depending on your age).

The trade off to these concessional tax rates is that superannuation monies are generally “preserved”, meaning that superannuation cannot be accessed until you satisfy a condition of release, such as retiring or reaching age 65. For information on superannuation Preservation Rules, refer to *Fact Sheet #3* or to an Equisuper Product Disclosure Statement.

Please note: most of the tax concessions related to superannuation depend on you providing your Tax File Number (TFN) to your superannuation fund. There is more information about this, and the possible penalties that may apply if you do not provide your TFN, in *Fact Sheet #8*.

Tax on contributions

Concessional (pre-tax) contributions

Concessional contributions include salary sacrifice contributions, employer SG contributions, defined benefit notional taxed contributions, other additional employer contributions, or contributions made by self-employed people. These contributions are taxed at 15% on entry into the fund, up to certain limits. Once the concessional contributions tax threshold is exceeded, an additional penalty tax rate

of 31.5% applies to the excess contributions. Concessional contributions are generally tax deductible to the employer or self-employed person, however, you should monitor the contribution threshold to ensure penalty tax is not incurred, as this may negate much of the tax advantage associated with superannuation contributions. Refer to *Fact Sheets #2* and *#9*.

Non-concessional (after-tax) contributions

Non-concessional contributions are any contributions you make from your after-tax salary. They can be regular, or lump sum, “one-off” contributions”, or a contribution made for you by your spouse. Non-concessional contributions are not taxed when they enter your super account, and are tax-free when returned to you once you are eligible to receive your benefit as a lump sum or as an income stream.

There can be tax benefits attached to making either concessional or non-concessional contributions, depending on your personal circumstances. There is more detail about the different types of contributions, including eligibility to contribute, tax, contribution caps, and possible penalties in the following *Fact Sheets*, which you can obtain from our website, under the Learning Centre tab, or via our Helpline:

- > *Fact Sheet #2 – Making extra contributions*
- > *Fact Sheet #6 – Self-employed contributions*
- > *Fact Sheet #1 – Making salary sacrifice contributions*
- > *Fact Sheet #13 – Spouse contributions*
- > *Fact Sheet #9 – Non-concessional contributions*

Investment earnings

Investment earnings in superannuation funds are taxed at a maximum rate of 15%, compared to higher marginal tax rates that may apply to non-super investments depending on your taxable income*. In addition, in many cases, the tax on your super earnings may be less than 15% because super funds may be able to offset the tax on their earnings through deductions such as franking credits from investments in Australian shares.

This brochure is for general information only. It has been prepared without taking into account your personal objectives, financial situation or needs. You should consider whether this information is appropriate to your personal circumstances before acting on it and, if necessary, seek professional financial advice. If you are considering investing in the Equisuper Superannuation Fund ABN 33 813 823 017, you should read the appropriate Equisuper Product Disclosure Statement (PDS) before making an investment decision. You can obtain a PDS via our website or by contacting the Helpline.

The taxation information included in this brochure is a general guide only. As taxation laws are complex and individual circumstances vary, you should seek individual taxation advice from a qualified advisor.

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For full information about the services and remuneration of EFP, please refer to the EFP Financial Services Guide, available by contacting **1800 065 753**, or on the website **www.equipfp.com.au**.

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If you become eligible to commence an income stream after you reach your preservation age (refer to *Fact Sheet #3*), the investment earnings on the superannuation assets in the pension fund are tax-free. You may have to pay tax on the income you receive from the pension assets (see below), but the underlying assets are not taxed whilst in the fund.

There is more information on investing in superannuation in the Investment series of articles on the fund website, under the Learning Centre tab, or via our Helpline.

* Based on 2009/10 Australian individual tax rates

Benefit payments[^]

One of the major attractions of superannuation is the relatively low rate of tax, or even no tax, applied to benefits when they become available to be paid to you, after you satisfy a condition of release. For example, this may be when you reach your preservation age and decide to retire. The tax that applies depends on whether you decide to take a lump sum benefit or commence an income stream.

Lump sum payments

Your superannuation fund will divide your superannuation into two components:

- > A tax-free component (representing after-tax contributions, and other possible superannuation amounts related to invalidity or employment prior to 1 July 1983); and
- > A taxable component, (representing employer or other tax deductible contributions which have been taxed on entry into the superannuation fund).

The tax you pay on the taxable component (if any) depends on your age as shown in the table below:

Component	Under Preservation Age**	Between Preservation Age and Age 59**	Age 60 or over
Tax-free	Tax-free	Tax-free	Tax-free
Taxable	Taxed at 20% plus Medicare levy	First \$150,000* is tax-free, and balance taxed at 15% plus Medicare levy.	Tax-free

More information on tax on lump sum benefits is contained in *Fact Sheets #10* and *#18*.

** Benefits must be withdrawn from each component in the same proportions as each component bears to your total account balance. Assumes no untaxed element within the taxable component. Benefits paid on satisfying the definition of terminal illness are tax-free. Tax on permanent disablement benefits may be more complex. If this applies to you, please refer to our Helpline for further information.

[^] Not including death or disablement benefits.

Income stream payments

Each income payment is split into a tax-free and a taxable component, (though the calculation may differ from the calculation related to lump sum payments if your income stream commenced prior to 1 July 2007.)

Each income payment is then taxed according to your age as follows:

Component	Under Preservation Age	Between Preservation Age and Age 59	Age 60 or over
Tax-free	Tax-free	Tax-free	Tax-free
Taxable	Taxed at your marginal tax rate plus Medicare levy	Taxed at your marginal tax rate plus Medicare levy. A 15% tax offset may apply to reduce the overall tax paid.	Tax-free

Getting advice

Before taking any action, we strongly recommend you seek personal financial advice. If you would like to speak to an Equipsuper Financial Planner, please call 1800 065 753 or visit www.equipfp.com.au for further information.