

How Super is Taxed

1 July 2011

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Super can be a tax-effective way to build up investments to fund your retirement. Understanding how taxes work will help you maximise your benefits.

Tax on contributions to a super fund

The rate of tax on super contributions depends on the type of contribution being made and the amount of contributions made in the financial year. This flyer explains how super is taxed.

Before we get started, here are some handy definitions:

After-tax income – e.g. your salary less tax. That is the money you see deposited in your bank account when you get paid.

Before-tax income – e.g. your total salary, before your employer takes out tax.

After-tax contributions

Contributions made from your after-tax income are called non-concessional contributions, and include personal contributions and spouse contributions. They are not taxed when deposited into your super fund, as you've already paid income tax on this money.

There is a non-concessional contribution cap* of \$150,000 p.a. for people of all ages. Those aged under 65^ may bring forward two years' worth of contributions, giving them a cap of \$450,000 over three years. Any non-concessional contributions made over this cap will be taxed at 46.5% (including Medicare levy).

Before-tax contributions

Contributions by your employer or made from your before-tax income are called concessional contributions, and include employer contributions and salary sacrifice amounts.

Concessional contributions also include any personal contributions claimed as a tax deduction. This is applicable when an eligible person sends an Australian Tax Office (ATO) *Notice of intent to claim or vary a deduction for personal super contributions* form to HESTA and receives confirmation of their eligibility for a tax deduction.


Concessional contributions are taxed at 15% when deposited into your super fund from your before-tax income.

There is a concessional contribution cap* of \$25,000 p.a. for people aged under 50 and \$50,000 p.a. for people aged 50 or older^. Any concessional contributions made over this cap will be taxed at 46.5% (including Medicare levy).

Benefits of contributions

- The rate at which before-tax contributions are taxed (15%) may be lower than your income tax rate.
- Personal after-tax contributions may also attract the government super co-contribution. For more information, see *How Super Works* at hesta.com.au/pds
- Spouse contributions may be eligible for the spouse contribution tax offset.
- You may be able to claim a tax deduction on personal contributions made to HESTA, if less than 10% of your total income is from working as an employee. For example, this may be the case if you are substantially self-employed. For details, free call HESTA on 1800 813 327.

For more information on benefits you could achieve by making extra super contributions, see *How Super Works* at hesta.com.au/pds

 You can also use the HESTA calculators to see how contributions could work for you at hesta.com.au/calculator

Tax on earnings in super

Investment earnings in super are taxed at a maximum rate of 15%. The final tax rate may be less than 15% after tax-deductions, offsets and credits are applied.

The tax rate on investment earnings in super may be lower than the tax rate on your investment earnings outside of super (including interest on money in a bank account), which would be at your income tax rate.

Investment tax is deducted from investment earnings before HESTA declares interest rates.

Tax file number (TFN)

It's beneficial to provide your TFN to your super fund. If you don't, concessional contributions into your super and benefit payments from your super may be taxed at the highest marginal rate (plus the Medicare levy) of 46.5%. Your fund will also not be able to accept after-tax contributions.

*The contribution caps are applied per person, not per fund, which means contributions made to other funds are included in the cap. Excess concessional contributions will also count towards your non-concessional contribution cap. Super funds are required to report all contributions to the Australian Tax Office (ATO), and the ATO determines whether you have exceeded a contribution cap. ^ The person can be under age 65 at any time in a financial year.

Tax on lump-sum payments from super

Payments from your super account will have a tax-free and a taxable component. Withdrawals are taken proportionally from the tax-free component and the taxable component, based on how much is in each component. You cannot choose to have a partial withdrawal from one particular component.

Tax-free component

The tax-free component of your super is generally made up of your non-concessional contributions plus any crystallised tax-free amounts at 30 June 2007. If your super is released due to permanent incapacity, the tax-free component will be increased if you are under age 65. No tax is payable on the tax-free component.

For more information about crystallised amounts or permanent incapacity payments, free call HESTA on 1800 813 327.

Taxable component

The taxable component is the total of your benefit less the tax-free component. The rate of tax on the taxable component (see table at right) depends on how your super is being paid out.

- 1 Retirement payments** – there are different tax rates for lump-sum payments depending on your age and the amount. There is no tax on payments to those aged over 60.
- 2 Rollover between super funds** – there is no tax payable if you transfer money from one super fund to another, if both funds are based in Australia. The only exception is where the amount transferred contains an untaxed element, which may occur when transferring benefits from certain public sector super funds.
- 3 Departing Australia Superannuation Payments** – if you're a temporary resident who has departed Australia, a different tax rate will apply.
- 4 Terminal illness payments** – if your super is released due to terminal illness, there is no tax on payments.
- 5 Death benefit payments** – tax on death benefits depends on whether the benefit is paid to a dependant** or a non-dependant. The taxable component of a death benefit may include an untaxed element where the proceeds of death insurance have been paid into the account.

HESTA generally increases the death benefit by applying anti-detriment provisions (*Income Tax Assessment Act 1997*). Anti-detriment represents a refund of the contributions tax applied to the deceased member's super over their lifetime.

Taxable component of a lump-sum payment	Tax rate
1 Retirement payments	
• Paid before preservation age	21.5%
• Paid after preservation age but before age 60	0% (up to \$165,000) 16.5% (over \$165,000)
• Paid after age 60	0%
2 Rollover between super funds	
• Taxed element	0%
• Untaxed element	15% (up to \$1.205m) 46.5% (over \$1.205m)
3 Departing Australia Superannuation Payments	35%
4 Terminal illness payments	0%
5 Death benefit payments	
• Paid to a dependant**	0%
• Taxed element paid to a non-dependant	16.5%
• Untaxed element paid to a non-dependant	31.5%

**A dependant for tax purposes is defined as a spouse, a child less than age 18, any other person with whom you have an interdependency relationship, or any other person who is dependant. Unless they meet this criteria, your nominated beneficiaries may not be classified as dependants for tax purposes. See *How Super Works* at hesta.com.au/pds for more details about dependants.

Seek advice

One of the benefits of your HESTA membership is super advice at no extra cost.

The rules regarding tax and super are complex. How these rules will affect you will depend on your individual circumstances.

To make an appointment with a HESTA Superannuation Adviser, free call 1800 813 327.

Contact HESTA

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