How super is taxed

VicSuper FutureSaver Member Guide

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Contents

The information in this document forms part of the *VicSuper FutureSaver Product Disclosure Statement* (PDS) dated 13 November 2020. It is based on laws that were current at 1 October 2020.

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Taxation for super can be complex. We've broken it down into three sections to make it simpler: contributions, investment returns and withdrawals.

Tax – contributions

Compulsory government contributions tax is payable by us to the Australian Taxation Office (ATO) at the rate of 15% on before-tax contributions (which include superannuation guarantee (SG), salary sacrifice and personal deductible contributions), and rollovers from an untaxed super fund. Contributions tax is generally deducted from applicable contributions at the time they are received by us, or when you exit the Fund. Contributions tax in relation to personal deductible contributions will be deducted when we receive your *Notice of intent to claim or vary a deduction for personal super contributions* form.

Individuals with an adjusted taxable income of over $250,000 per annum generally have their before-tax contributions taxed at an effective rate of 30% (the additional 15% is payable by the individual as advised by the ATO).

There is additional tax payable, in most cases, if you do not quote your tax file number (TFN) by the end of the financial year (taxed at the rate equal to the top marginal tax rate plus Medicare levy less 15%) or if you exceed your contribution caps. Refer to table below.

Contribution caps 2020/21

Type of contribution	Cap per person across all super funds	Tax treatment if cap is exceeded[1]
Concessional (before-tax) contributions • Employer superannuation guarantee (SG) contributions • Additional employer contributions • Salary sacrifice contributions • SG contributions paid by your employer to the ATO (formerly SG vouchers) • Personal deductible contributions[2]	$25,000 pa[3], regardless of your age. You may be able to carry forward and utilise up to five years of the unused portion of your concessional contributions cap. This is provided your total super balance is less than $500,000 at the end of the previous financial year.	You are taxed on before-tax contributions above this cap at your marginal tax rate plus an interest charge. You receive a tax offset equal to 15% of the excess for the contributions tax already paid by the Fund. The excess contributions will be counted towards your non-concessional contribution cap, but will generally be reduced by any amount of the excess you choose to release from a super fund.
Rollovers	No cap	Not Applicable
Non-concessional (after-tax) contributions • Personal (member) contributions • Eligible spouse contributions	$100,000 pa[4], but you will have a non-concessional cap of $0 if your total super balance at 30 June of the previous financial year is equal to or greater than the general transfer balance cap. For the 2020/21 financial year, this cap is $1.6 million. Generally, if you are under age 65 you can bring-forward two years of future entitlements, equalling a cap of $300,000 over three years (if your total super balance is equal to or greater than $1.4 million, then your eligibility to bring-forward is reduced).	If you exceed this cap and you do not elect for the excess and the related earnings to be refunded (once notified by the ATO), additional tax will be applied so that the excess contributions are taxed at the top marginal tax rate plus Medicare Levy. If you elect to refund the excess and the related earnings, you will be taxed on the earnings at your marginal rate. You will be entitled to a non-refundable tax offset equal to a 15% of the earnings. Additional tax may apply.

1. If you exceed either or both caps, the ATO will contact you.
2. Tax deductions for personal contributions are allowed for most members, subject to age eligibility and work test rules.
3. This amount is generally indexed periodically in increments of $2,500 but has not been indexed since the 2017/18 financial year.
4. The amount is indexed in line with increases to the concessional contribution cap.

Downsizing contributions

If you are aged 65 or older and meet the eligibility requirements, you may be able to make a downsizer contribution into your super of up to $300,000 from the proceeds of selling your home (or $600,000 for couples).

This applies to the sale of your home, which was your main residence and you owned for at least 10 years, where the exchange of contracts for the sale occurred after 1 July 2018.

The downsizing contribution will not count towards your contribution caps.

It will count towards your transfer balance cap, currently set at $1.6 million as well as the Age Pension means test. This cap applies when you move your super savings into retirement phase, eg if you move your super balance, including your downsizer contribution, to a VicSuper Flexible Income account.

Your downsizer contribution will not affect your total super balance until your total super balance is re-calculated to include all your contributions, including your downsizer contributions, on 30 June at the end of the financial year.

Visit **ato.gov.au** for more information or speak to one of our financial planners.

Tax offset for eligible spouse contributions

Refer to the member guide 'How super works' for details. To download a copy, go to **vicsuper.com.au/memberguide**

Tax – investment returns

Tax on investment earnings

The investment earnings of the fund are taxed at a maximum rate of 15%. The actual rate of tax paid may be less due to the effect of various tax credits, deductions and offsets. The tax of up to 15% on investment earnings varies between investment options.

The amount of tax payable on investment earnings is taken into account when calculating the unit price for each diversified and single asset class investment option. This does not show on your benefit statement. However, the amount of tax payable on term deposits is incorporated into the maturity proceeds of the term deposit.

Tax – withdrawals

Tax treatment of super[1]

Age 60 and over

You can generally receive your super tax-free in the form of both income streams and/or lump-sum withdrawals provided you have reached age 60.

Age below 60

Tax may still apply if you receive your super (both lump sum and income streams) before you reach age 60.

Your super may have tax-free and taxable components. Any personal after-tax contributions you make will form part of the tax-free component. The tax-free component is always paid tax-free.

The table on the next page refers to the treatment of the taxed and untaxed component of your super benefit.

When a partial withdrawal is made, it is 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. If your total benefit is withdrawn and it is less than $200 it is paid tax-free regardless of age.

You will not pay tax while you retain your benefit in VicSuper FutureSaver or when you roll over your benefit to another complying super fund or another account in the Fund like VicSuper Flexible Income (subject to the transfer balance cap outlined on this page).

Example

Jeremy is age 56 and has a total super benefit of $400,000. His tax-free component is $100,000 (25% of his total super benefit) and his taxable component is $300,000 (75% of his total super benefit).

Jeremy decides to make a partial lump-sum withdrawal of $100,000. In this instance, $25,000 (25% of the partial withdrawal amount) would be tax-free and $75,000 (75% of the partial withdrawal amount) would be taxable.

However, as this taxable component of $75,000 is under $215,000, Jeremy would not have to pay tax on this amount.

Up to $140,000 in further taxable components could be withdrawn tax-free by Jeremy from his super fund accounts prior to him reaching age 60 (assuming Jeremy hasn't made any previous withdrawals in other financial years).

1. Withdrawals are subject to meeting a 'condition of release'. For details refer to **vicsuper.com.au/memberguide** 'How super works'.

Age	Taxable component Tax treatment for taxed element	Taxable component Tax treatment for untaxed element[1]
Age 60 and above	Tax free	• Up to $1,565,000 – 15% plus the Medicare levy • Over $1,565,000 – top marginal rate plus the Medicare levy
Preservation age to age 59[2]	Up to $215,000 – 0% Over $215,000 – 15% plus the Medicare levy	• Up to $215,000 – 15% plus the Medicare levy • Over $215,000 and up to $1,565,000 – 30% plus the Medicare levy • Over $1,565,000 – top marginal rate plus the Medicare levy
Under preservation age	20% plus the Medicare levy	• Up to $1,565,000 – 30% plus the Medicare levy • Over $1,565,000 – top marginal rate plus the Medicare levy

All thresholds mentioned in the table above are indexed periodically in $5,000 increments and represent lifetime limits.

First Home Super Saver Scheme (FHSSS)

The FHSSS scheme was introduced to allow people saving for their first home to save inside their super fund. This may help first home buyers save faster with the concessional tax treatment within super.

If you are eligible, you can make voluntary concessional (before-tax) and non-concessional (after-tax) contributions into your super fund to save for your first home.[3]

You can then apply to the ATO to allow the release of your voluntary contributions, along with associated earnings, to help purchase your first home. Eligibility requirements apply for the release of these amounts, so please refer to the ATO website **ato.gov.au** for details.

You can request the release of voluntary contributions of up to $15,000 per year, up to a maximum of $30,000 in total. These contributions will be subject to existing caps.

Before-tax contributions are taxed at 15%.

The assessable part of your withdrawal (your released concessional contribution and earnings you make on the released contributions) will be taxed at your marginal tax rate less a 30% offset.

Generally you will have 12 months after withdrawing the money to sign a contract for your first home. If you don't end up buying a home within the 12-month timeframe, you must either re-contribute the released amount back into superannuation, or pay a tax penalty equal to 20% of the assessable amount released from super.

For full details of how the scheme works, visit **ato.gov.au** or speak to one of our financial planners.

What if I have a terminal medical condition?

- A super lump sum paid where a terminal medical condition exists as defined under law, is tax free.
- Where a super lump sum has already been paid out and a terminal medical condition is diagnosed within 90 days of the payment, you may apply to us or the ATO (depending on the timing of the application during year) for a refund of any withheld tax.

Are death benefits taxed?

Death benefits will be paid tax-free to a dependant (for tax purposes). Death benefits paid to a non-dependant, such as adult children (ie age 18 or over) who are not financially dependent, will be subject to 15% tax plus the Medicare levy on the taxed element and 30% plus the Medicare levy on the untaxed element of the taxable component of the benefit.

How are dependants defined?

A dependant (for tax purposes under the *Income Tax Assessment Act* 1997) is generally defined as:

- a spouse or former spouse[4]
- a child less than age 18[5]
- any other person with whom you have an interdependency relationship at the time of your death
- any other person who was dependent upon you at the time of your death.

Two people are considered as having an interdependency relationship if:

1. they have a close personal relationship, and
2. they live together, and
3. one or each of them provides the other with financial support, and
4. one or each of them provides the other with domestic support and personal care.

1. Generally an untaxed element only applies where payments include an insured benefit.
2. Preservation age ranges from age 55 to 60 depending on your date of birth. For details refer to **vicsuper.com.au/memberguide** 'How super works'.
3. To be eligible to use the FHSSS, an individual must have never held an ownership or similar interest in Australian real property. However, an individual who has held such an interest may still qualify for the FHSSS if the ATO determines that they have suffered a 'financial hardship'. Refer to **ato.gov.au** for full details.
4. This includes another person (whether of the same sex or a different sex), who, although not legally married to the person, lives with the person on a genuine domestic basis in a relationship as a couple, or another person with whom the person is in a relationship that is registered under a law of a State or Territory.
5. This includes an adopted child, a stepchild, an ex-nuptial child or a surrogate child recognised by the court, or a child of the person's spouse.

Two people (whether or not related by family) also have an interdependency relationship if they have a close personal relationship, but do not satisfy points 2, 3 and 4 listed above because either or both of them suffer from a physical, intellectual or psychiatric disability or because they are temporarily living apart.

Former temporary residents

Payments made to temporary residents departing Australia permanently are subject to tax at the rate of 35%. A higher rate of 65% will apply to holders of working holiday visas. Refer to the ATO website **ato.gov.au** for details.

Temporary early release of super

The Federal Government is allowing individuals affected by the coronavirus to access up to $10,000 of their super in the 2020/21 financial year.

If you are eligible for early release, you will not need to pay tax on amounts released and the money you withdraw will not affect Centrelink or Veterans' Affairs payments. Refer to the ATO website **ato.gov.au** for details.

Lump-sum member benefits under $200

Lump-sum member benefits under $200 are paid tax free provided:

- no other amount will be left in your account upon payment of the lump sum, and
- you satisfy a condition of release, because either:
  - you were a lost member and have subsequently been found and the amount of the benefit is less than $200, or
  - you cease employment with one of our participating or non-participating employers and have a preserved benefit that is less than $200.

Information about providing your tax file number (TFN)

Giving us your TFN is important. Without your TFN we:

- cannot accept personal contributions into your account in the Fund
- will generally tax concessional contributions (eg superannuation guarantee and salary sacrifice contributions) at the top marginal tax rate plus the Medicare levy
- must, if you are under age 60, tax the taxable component of withdrawals at the top marginal tax rate plus the Medicare levy.

If we do not have your TFN you can provide it through VicSuper MembersOnline at **vicsuper.com.au**

Alternatively you can download a *Provide your tax file number* form (V305) at **vicsuper.com.au/forms** or request a form to be sent to you by contacting our Member Centre on **1300 366 216**. You can also provide it over the phone by calling our Member Centre.

The collection of TFNs by us is authorised under Commonwealth legislation. By providing us with your TFN you are authorising us to use your TFN for purposes specified in the *Superannuation Industry (Supervision) Act* 1993 and tax laws.

Call our Member Centre on **1300 366 216** to provide your consent to us to use your TFN to search the ATO super online facility or contact other super funds, in order to facilitate the consolidation of multiple super accounts you hold.

Authorised purposes for which we may use your TFN include:

- locating multiple member accounts
- taxing super payments at concessional rates
- finding and consolidating your super entitlements (subject to obtaining consent and complying with any other regulatory requirements)
- conducting a search for other super accounts held in your name, using the ATO online facility. If other accounts are found, contacting those funds seeking information to facilitate consolidation
- providing your TFN to the ATO to enable the ATO to calculate any excess contributions tax or tax when you receive a benefit or if you have unclaimed super money
- providing your TFN to the ATO to help determine your eligibility for a government co-contribution
- providing your TFN to the trustee of a complying super fund, the trustee of an exempt public sector super scheme or to a Retirement Savings Account provider receiving any funds you may roll over from our Fund unless you tell us in writing you do not want your TFN passed on to your new fund.

There is no requirement for you to provide your TFN and failing to do so is not an offence. However, if you do not provide us with your TFN, either now or later, we will not be able to accept member contributions on your behalf and you may have to pay more tax on your contributions and have more tax withheld on your super benefits than would otherwise have been necessary. In some instances, for example if you provide your TFN within three years, we may claim the additional no-TFN contributions tax paid through the ATO and credit it to your account.

It may also be more difficult for us to locate and consolidate your super benefits in cases where you have multiple accounts and where you have not notified us of a change of address.

The lawful purposes and the consequences of not quoting your TFN may change in the future because of legislative change. If you do provide your TFN, it will be kept confidential by us and the ATO.

Your welcome letter, VicSuper MembersOnline and benefit statement will indicate if your TFN has been provided.

This tax information is based on tax laws that were current as at 1 October 2020. The tax arrangements outlined here relate only to benefits paid from a taxed fund.

Get in touch – we're here to help

Call our Member Centre
1300 366 216 (from outside Australia **+61 3 9667 9875**)
and speak to a super consultant between
8.30am and 5pm, Monday to Friday

To make an appointment to see one of our
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