



How super is taxed

VicSuper FutureSaver Member Guide

The information in this document forms part of the VicSuper FutureSaver Product Disclosure Statement (PDS) dated 1 July 2018.

Note. The information in this PDS may be impacted by the proposed changes announced in the May 2018 Federal Budget, which are not yet law. Visit our website or contact our Member Centre for more information.

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

1. Tax – contributions

Commonwealth contributions tax

Compulsory government contributions tax is payable by VicSuper 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 VicSuper, 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 income of over \$250,000 pa 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There is additional tax payable, in most cases, if you do not quote your tax file number (TFN) by the end of the financial year (taxed at the rate equal to the top marginal tax rate plus Medicare levy less 15%) or if you exceed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 right.

Contribution caps 2018/19

Type of contribution	Cap per person across all super funds	Tax treatment if cap is exceeded ⁴
<p>Concessional (before-tax) contributions</p> <ul style="list-style-type: none"> • Employer superannuation guarantee (SG) contributions¹ • Additional employer contributions • Salary sacrifice contributions • SG contributions paid by your employer to the ATO (formerly SG vouchers) • Personal deductible contributions² 	<p>\$25,000³ pa, regardless of your age.</p> <p>You can 'carry forward' up to five years of the unused portion of your concessional contributions cap. The first year you can use any amounts carried forward is the 2019/20 financial year, provided your total super balance is less than \$500,000.</p>	<p>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.</p> <p>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.</p>
<p>Rollovers</p>	<p>No cap</p>	<p>No tax</p>
<p>Non-concessional (after-tax) contributions</p> <ul style="list-style-type: none"> • Personal (member) contributions • Eligible spouse contributions 	<p>\$100,000 pa⁵, 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 2018/19 financial year, this cap is \$1.6 million.</p> <p>Generally, if you are under age 65 you can bring-forward two years of future entitlements, equaling 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).</p> <p>If you have triggered the bring-forward rule in the 2016/17 financial year, and you have not fully utilised the cap prior to 1 July 2017, then transitional arrangements may apply to your non-concessional cap from 1 July 2017.</p>	<p>If you exceed this cap and you do not elect for the excess and the related earnings to be refunded if the contributions are still in a super fund, then additional tax will be applied so that the excess contributions are taxed at the top marginal rate plus Medicare Levy.</p> <p>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 non-refundable tax offset equal to 15% of the earnings. Additional tax may apply.</p>

1 Under proposed legislation, from 1 July 2018, if your income exceeds \$263,157 and you have multiple employers, you may nominate wages from some of your employers to be exempt from the superannuation guarantee (SG). This change is not yet law.
 2 Tax deductions for personal contributions are allowed for most members, subject to age eligibility and work test rules.
 3 This amount is indexed in increments of \$2,500.
 4 If you exceed either or both caps, the ATO will contact you.
 5 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 choose to make a downsizer contribution into your super of up to \$300,000 from the proceeds of selling your home.

This applies to the sale of your home, which was your main residence, where the exchange of contracts for the sale occurs on or after 1 July 2018.

It is not a non-concessional contribution and will not count towards your contributions 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. It also contributes to your overall total super balance the 30 June after you make the contribution.

Visit ato.gov.au for more information or speak to a VicSuper financial planner.

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/memborguide

Information about providing your tax file number (TFN)

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

- cannot accept personal contributions into your VicSuper Fund account
- will generally before-tax contributions (e.g. 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 VicSuper does not have your TFN you can provide it through VicSuper MembersOnline 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 VicSuper's Member Centre.

The collection of TFNs by VicSuper is authorised under Commonwealth legislation. By providing VicSuper with your TFN you are authorising VicSuper to use your TFN for purposes specified

in the Superannuation Industry (Supervision) Act 1993 (Cwlth) and tax laws.

Call our Member Centre on **1300 366 216** to provide your consent to VicSuper 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 VicSuper 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 VicSuper Fund, unless you tell VicSuper 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 VicSuper with your TFN, either now or later, VicSuper will not be able to accept member contributions on your behalf and you may have to pay more tax on your super benefits and contributions 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 VicSuper of a change of address.

The lawful purposes and the consequences of not quoting your TFN may change in the future as a result of legislative change. If you do provide your TFN, it will be kept confidential by VicSuper and the Commissioner of Taxation.

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

2. Tax - investment returns

Super can be a tax-effective investment. Investment returns in complying super funds, like the VicSuper Fund, are taxed up to a maximum of 15%. The tax on the investment return of up to 15% varies between investment options.

The tax rate on each investment option is incorporated into the calculation of the unit price for each investment option, except for term deposits where the tax is incorporated into the maturity proceeds of the term deposit. Go to vicsuper.com.au for information about unit prices.

3. Tax - withdrawals

Tax treatment of super

Age 60 and over

You can 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.

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 of these changes.

Age	Taxable component Tax treatment for taxed element	Taxable component Tax treatment for untaxed element ¹
Age 60 and above	Tax free	<ul style="list-style-type: none"> Up to \$1,480,000 – 15% plus the Medicare levy Over \$1,480,000 – top marginal rate plus the Medicare levy
Preservation age to age 59 ²	Up to \$200,000 – 0% Over \$200,000 – 15% plus the Medicare levy	<ul style="list-style-type: none"> Up to \$205,000 – 15% plus the Medicare levy Over \$205,000 and up to \$1,480,000 – 30% plus the Medicare levy Over \$1,480,000 – top marginal rate plus the Medicare levy
Under preservation age	20% plus the Medicare levy	<ul style="list-style-type: none"> Up to \$1,480,000 – 30% plus the Medicare levy Over \$1,480,000 – top marginal rate plus the Medicare levy

Details based on the 2018/19 financial year.

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

- Generally an untaxed element only applies where payments include an insured benefit.
- Preservation age ranges from age 55 to 60 depending on your date of birth. For details, refer to vicsuper.com.au/memborguide 'How super works'.

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 the above tax while you retain your benefit in VicSuper FutureSaver or when you roll over your benefit to another complying super fund including a VicSuper Flexible Income pension.

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 \$205,000, Jeremy would not have to pay tax on this amount.

Up to \$130,000 in further taxable components could be withdrawn tax-free by Jeremy from VicSuper or other funds prior to his reaching age 60 (assuming Jeremy hasn't made any previous withdrawals in other financial years).

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.²

You can then apply to the ATO to allow the release 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 for more information or speak to a VicSuper financial planner.

What if I have a terminal medical condition?

- A super lump sum paid where a terminal medical condition exists 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 VicSuper 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 (i.e. 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.

² 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 Commissioner of Taxation determines that they have suffered a 'financial hardship'. Refer to ato.gov.au for full details.

How are dependants defined?

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

- a spouse¹
- a child less than age 18²
- 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.

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.

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 a VicSuper participating or provisional employer and have a preserved benefit that is less than \$200.

This tax information is based on tax laws that were current at the time this information was updated. The tax arrangements outlined here relate only to benefits paid from a taxed fund, such as the VicSuper Fund.

1 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.

2 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.

Get in touch – we're here to help

Call our Member Centre

1300 366 216 and speak to a VicSuper super consultant between 8.30am and 5pm, Monday to Friday

Visit us

Bendigo | Blackburn | Geelong | Melbourne CBD | Traralgon

Monday to Friday
8.30am to 5pm

To make an appointment to see a VicSuper financial planner call **(03) 9667 9200**

Send us a fax
(03) 9667 9610

Write to us

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GPO Box 89
MELBOURNE VIC 3001

Browse our website

vicsuper.com.au

Download our app

vicsuper.com.au/mobileapp

Manage your account online

Simply visit our website to login

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