Super and Tax

June 2022

This leaflet provides a brief summary of the tax that applies to superannuation. Information in this leaflet is based on the tax rates and thresholds for the 2022/2023 financial year unless otherwise noted. Towers Watson Australia Pty Ltd reserves the right to correct any errors or omissions.

How are investment earnings taxed in a super fund?

Investment earnings are generally taxed at a maximum rate of 15%. This rate reduces if deductions and imputation credits are available to the fund or its investment managers. This tax is deducted from the fund's investment earnings before they are applied to your account(s). There is no tax deducted from investment earnings in an Account-Based Pension arrangement, other than a transition to retirement Account-Based Pension.

How is my super benefit taxed?

The tax payable on benefits depends on a number of factors, including:

- The type of benefit being paid (retirement, disability or death);
- Who receives the benefit;
- Whether you are an Australian citizen or permanent resident when the benefit is paid. Higher tax applies to benefits paid to temporary residents who permanently leave Australia;
- Whether you provided your TFN to the fund; and
- How you receive the benefit (e.g. lump sum amount or pension) and your age.

If you are age 60 or over, generally all lump sum payments and pensions paid to you from a taxed super fund will be tax free (different rules apply to certain defined benefit pensions – contact your super fund for more information).

Benefits paid if you are certified as having a terminal medical condition are also tax free. Death benefits paid to non-dependants are taxed, as are certain disability benefits. Benefits paid to departing temporary residents may also be taxed.

Tax on lump sums

Age	Lump sum tax rate#
Less than your preservation age*	22%^
Between your preservation age* and age 59	The first $230,000** is tax-free and the remainder is taxed at 17%^

Excluding departing temporary residents.

* See below for details.

** This is a lifetime limit and not a per-payment limit.

^ Including Medicare levy.

Your preservation age

Your preservation age depends on when you were born.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
1 July 1964 or later	60

How are my contributions taxed?

Limits on contributions

What are concessional contributions?

Concessional contributions include Company contributions (including Company contributions towards the cost of insurance cover and administration fees if applicable) or notional contributions in respect of defined benefits, and personal salary sacrifice contributions. They also include personal contributions for which you have claimed a tax deduction.

What are non-concessional contributions?

Non-concessional contributions include after-tax contributions for which you have not claimed a tax deduction, excess concessional contributions not withdrawn from superannuation, and certain other contributions from non-salary sources (e.g. contributions made for you by your spouse and certain overseas transfers). It does not include rollovers or co-contributions.

The Government has set limits or caps on the amount that can be contributed to super each year before extra tax applies.

	Concessional contributions	Non-concessional contributions
What is the annual limit?	$27,500.	$110,000, however, if your total superannuation balance on 30 June 2022 was more than $1.7 million any non-concessional contributions you make in the 2022/23 year will be excessive.
How much tax applies to the excess if I exceed the limit?	Your marginal tax rate less 15% (reflecting tax already paid by the Fund).	If you withdraw the excess from super: Nil tax on contributions. Associated earnings taxed at your marginal tax rate. If you leave the excess in super: 47.0%.
What tax applies if my contributions are within the cap?	Generally 15% contributions tax.	Nil

If you are under age 75 and you want to make larger non-concessional contributions to your super fund, you may be able to bring forward up to two years of caps, to make total contributions of up to $330,000 over three years. The maximum you can contribute over three years is $330,000 and other conditions also apply. The age limit increased from 67 to 75 effective 1 July 2022.

You may be able to make extra concessional contributions above the cap if you did not use all of your concessional cap in the 2018/19 or a later year. This option is only available if your total superannuation balance on 30 June 2022 was less than $500,000. Unused cap amounts can be carried forward for a maximum of five years.

There are other special circumstances where you may be able to make additional contributions, such as if you previously withdrew part or all of your super under the COVID-19 early release scheme (these are called “COVID-19 recontributions”), or if you make certain contributions from the sale of your home if you are over age 60 (age 65 prior to 1 July 2022). Contact your super fund or the ATO for more information.

What happens if I exceed the caps?

If you exceed the non-concessional cap, you can elect to release the excess contributions from super, together with an amount of associated earnings. The ATO will send you a form to enable you to do this. The associated earnings will be included in your taxable income and taxed at your marginal tax rate. Note that the associated earnings amount is calculated by the ATO using a prescribed interest rate and may not reflect the actual earnings on the contributions in your super fund. If you don’t elect to withdraw the excess contributions, they may be taxed at up to 47%.

Members who exceed the concessional contributions cap can elect to release up to 85% of the excess contributions from the superannuation system. If you choose to do so, the amount will be paid by your super fund to the ATO, where it will first be used to meet any outstanding tax liabilities you may have (including the tax on the excess contributions) with the remainder then paid back to you. Amounts withdrawn will not count towards your non-concessional contributions cap.

Comparing concessional and non-concessional contributions

	Concessional contributions	Non-concessional contributions
PAYG tax	You do not pay any PAYG tax on the contributions because they are deducted before tax is taken out of your pay. This reduces the income tax you pay.	PAYG tax is deducted from your pay before after-tax superannuation contributions are made.
Contributions tax	Generally 15% contributions tax is deducted.* If your relevant income is over $250,000, you may receive an additional tax assessment from the ATO.	Because you have already paid income tax on this money, contributions tax is not deducted from after-tax contributions.
Benefit tax	Benefit tax may apply if the lump sum is taken before age 60 (see page 1 for details).	Benefit tax does not apply to after-tax contributions.
Excess contributions tax	Any contributions over the cap will be taxed at your marginal tax rate less 15% (reflecting tax already paid by your super fund). See page 2 for more details.	**If you withdraw the excess from super:** Nil tax on contributions. Associated earnings taxed at your marginal tax rate. **If you leave excess in super:** Any contributions above the cap will be taxed at 47%. See page 2 for more details.
Government co-contribution	Do not count towards eligibility for the co-contribution.	May count towards the co-contribution depending on your income and eligibility. See below for details.
Spouse contributions	You cannot make before-tax contributions on behalf of your spouse.	Some super funds allow you to make after-tax contributions on behalf of your spouse. These count towards your spouse's non-concessional contributions cap, rather than your own. A tax offset may apply (see page 4 for details).
Contribution splitting	You can split up to 85% of your concessional contributions (excluding contributions funding defined benefits) with your spouse. Note that these contributions still count towards your concessional contributions cap, not your spouse's.	Non-concessional contributions cannot be split.

* If your complying super fund does not have your Tax File Number, this tax increases to 47%.

Co-contributions

The Government pays a superannuation co-contribution for an eligible member's after-tax contributions up to certain limits.

The Government will contribute $0.50 for every dollar of member contributions up to a maximum of $500 per year for those on incomes of $42,016 per year or less.

The maximum co-contribution gradually reduces for each dollar that a person's total annual income exceeds $42,016 until it phases out altogether for those on incomes of $57,016 per year and above.

The ATO automatically determines your eligibility for the co-contribution based on your personal income tax return lodged each year. You cannot receive the co-contribution in the 2022/23 year if your contributions exceeded the non-concessional cap or your total superannuation balance on 30 June 2022 was $1.7 million or more.

If you are in the relevant income bracket and believe that you can benefit from the co-contribution, you may wish to speak to a licensed financial adviser, or contact the ATO on 13 10 20 or www.ato.gov.au/super.

Including applicable levies (e.g. Medicare levy).

The spouse tax offset

If you make contributions on behalf of your spouse, you may be entitled to claim a tax offset if your spouse is on a low assessable income. You can only claim an offset if your spouse's annual assessable income is less than $37,000.

Your spouse does not claim the offset; you do. To be eligible, you must be an Australian resident at the time you contribute.

The maximum offset is $540 per year. The spouse rebate is calculated as 18% of the lesser of:

- $3,000 reduced by $1 for every dollar that your spouse's annual assessable income exceeds $37,000; and
- The total of the spouse contributions you make during the year.

Please note, you cannot claim the tax offset on contributions split with your spouse.

Remember, everyone's financial situation and goals are different. So before you decide to make contributions for your spouse, speak to a licensed financial adviser.

Low income superannuation tax offset

If your relevant annual income is less than $37,000, you may be eligible to receive a refund of the 15% contribution tax deducted from your concessional contributions, up to a maximum of $500 per year. The ATO will determine whether you are eligible and will pay the offset to your super fund.

Providing your TFN

Under the Superannuation Industry (Supervision) Act 1993, complying super funds are authorised to collect, use and disclose your TFN. The Trustee may disclose your TFN to another superannuation provider when your benefits are being transferred, unless you request the Trustee of your superannuation fund in writing that your TFN not be disclosed to any other superannuation provider.

It is not an offence if you don't quote your TFN to your super fund. However, giving your fund your TFN will have the following advantages:

- Your super fund will be able to accept all permitted types of contributions to your accounts;
- Other than the tax that may ordinarily apply, you will not pay more tax than you need to – this affects both contributions to your superannuation and payments when you start drawing down your superannuation benefits; and
- It will make it much easier to find different superannuation accounts in your name so you receive all your superannuation benefits when you retire.

Tax on Pension arrangements

The Trustee recommends that you consult a tax adviser or licensed financial adviser before transferring your super into a pension. Following is a brief overview of the taxes that may apply to pensions.

Limit on amounts transferred to pensions

By law, there is a cap on the total amount you can have invested in pensions and annuities that are exempt from investment earnings tax#. This is called your transfer balance cap, and it applies to all of your superannuation pension investments including any reversionary pension you receive (it is not a cap on each individual pension). If you invest in a retirement pension or annuity for the first time during the 2021/22 or 2022/23 financial years, your transfer balance cap will be $1.7 million. If you already had such an investment before 1 July 2021, you will have a personal transfer balance cap that is between $1.6 million and $1.7 million. You can only check your personal cap via ATO online services through myGov – your super fund will not know what your personal transfer balance cap is.

The transfer balance cap does not apply to transition to retirement Account-Based Pensions.

Any pension or annuity amounts that exceed your cap must be withdrawn from superannuation or returned to an accumulation account, such as a retained benefit account. If you do not do so, the excess will incur an interest charge payable to the ATO while it remains in a pension, and you will have to pay tax on the interest charge. The ATO also has power to require your super fund to commute the excess without your consent.

Pension payments

If you are over age 60, you will not have any tax deducted from your regular pension payments#.

If you are under age 60, tax will automatically be deducted from your regular Account-Based Pension payments on a 'Pay As You Go' (PAYG) basis, in the same way as tax is deducted from an employee's salary. Provided you are aged between your preservation age (see page 1) and 60 years, you can claim a 15% rebate on most pension payments made to you (less any tax-free amount).

Certain defined benefit pensions may be subject to different rules. Contact your super fund for more information.

Investment earnings

Super funds pay no tax on the investment earnings of Account-Based Pension arrangements, other than transition to retirement Account-Based Pensions. Earnings on transition to retirement Account-Based Pensions are taxed at up to 15%.

Withdrawals

No tax applies to lump sum withdrawals from Account-Based Pension arrangements or commutations of lifetime pensions if you are over age 60 at the time of payment. If you are under age 60, lump sum superannuation tax applies (see page 1).

Death benefits

Your death benefit is not taxed on payment from a super fund if it is paid to your estate; however, the administrator of the estate has to make the appropriate tax deductions when it is paid from your estate.

If you have nominated for your Pension to continue to be paid to your spouse (i.e. a reversionary beneficiary) and they are aged 60 or more at the time of your death or you are over age 60 at the time of your death, then the reversionary payments will be tax-free*.

If your spouse is aged less than 60 at the time of your death and you were aged less than 60 at the time of your death, the reversionary pension payments will be taxed at your spouse's marginal tax rate (less the 15% tax rebate) until your spouse is aged 60, when they become tax free*.

In either case, the reversionary pension will count towards the recipient's transfer balance account.

* Certain defined benefit pensions may be subject to different rules. Contact your super fund for more information.

Social Security and the Government age pension

How much you receive (if any) from the Government's age pension will depend on how you rate under the Government's income and assets tests. This is because if your income and/or assets are over a certain level, you will not be entitled to a full age pension.

Account-Based Pensions are generally treated as financial assets and subject to the deeming rules for the purpose of the Income Test. Existing Account-Based Pensions held by pensioners in receipt of Centrelink benefits on 31 December 2014 continue to be assessed under the rules in place on that date.

Social Security and age pension rules can be complex, particularly in relation to defined benefit pensions, and the Trustee recommends that you contact the relevant Government agency and/or a licensed financial adviser to determine the impact on your social security and pension entitlements before you commence any superannuation pensions.

The information in this publication is general information only and does not take into account your particular objectives, financial circumstances or needs. It is not personal or tax advice. The information is based on the tax rates and thresholds for the 2022/23 financial year unless otherwise noted. Any examples included are for illustration only and are not intended to be recommendations or preferred courses of action. You should consider obtaining professional advice about your personal circumstances before making any financial or investment decision based on the information contained in this document.

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