STATE SUPER
SAS Trustee Corporation

STC
FACTSHEET 3

Taxation

This Fact Sheet is designed to help you understand how your superannuation entitlements may be taxed. The information provided is of a general nature and does not take your individual circumstances into account. It is important to remember that the taxation of super is a complex area and we recommend that you discuss your particular circumstances with a professional adviser.

Contents

1. When is superannuation taxed?

Superannuation is generally taxed at three stages:

- on employer contributions paid into the scheme,
- on the investment earnings of the scheme, and
- on benefits paid from the scheme.

Providing your Tax File Number (TFN)

Providing your TFN to State Super is important as how superannuation is taxed changes when a fund does not hold a member's tax file number.

It is not an offence not to quote your TFN. However, giving your TFN to your superannuation fund will have the following advantages (which generally will not otherwise apply):

- we will be able to accept all types of contributions to your account/s (subject to scheme rules),
- the tax on contributions to your superannuation account/s will not increase,
- other than the tax that may ordinarily apply, no additional tax will be deducted when you start drawing down your superannuation benefits, and
- it will make it much easier to trace different superannuation accounts in your name so that you receive all your superannuation benefits when you retire.

Under the *Superannuation Industry (Supervision) Act 1993* and the *Privacy and Personal Information Protection Act 1998 (NSW),* State Super is authorised to collect your TFN, which will only be used for lawful purposes. These purposes may change in the future as a result of legislative change. State Super may disclose your TFN to another superannuation provider, when your benefits are being transferred, unless you request in writing that we do not disclose your TFN to any other superannuation provider.

The Member area of the State Super website www.statesuper.nsw.gov.au and your last Annual Statement will indicate whether you have supplied your TFN. If you have not, it can be supplied via the Member area of the website or by telephoning Customer Service and following the TFN prompts. Alternatively, you can download State Super's *Tax File Number collection* form from the website, and post it to the address shown on that form.

2. Tax on employer contributions

The State Super schemes (SASS, SSS, PSS and SANCS) are generally known as being taxed schemes for income tax purposes. This means that since 1 July 1988, Commonwealth tax is paid on the employer contributions made to fund members' benefits. Members' final benefits are reduced as a result of this tax.

As you contribute to a defined benefits fund, the actual reduction in your benefit as a result of this tax cannot be determined until you exit the scheme, as the final value of your employer-financed benefit is not known until that time. The benefit reduction is 15% of the post 30 June 1988 portion of your employer-financed benefit.

Salary sacrifice contributions

Members of SASS, SSS and PSS are able to make their personal contributions to State Super on a salary sacrifice basis, meaning that they are made out of your before-tax salary. Although these contributions are paid from your salary, they are regarded as employer contributions and are taxed at 15% when they are received by State Super.

Additional Employer Contributions (AEC)

Some members of SASS, SSS and PSS are also eligible to receive additional employer contributions (AEC). These contributions became payable on 19 December 2014 when laws came into effect that provided for a new superannuation benefit for eligible NSW Public Sector Employees in the SASS, SSS and PSS superannuation schemes. This new benefit was created to ensure that New South Wales Public Sector Employees received the benefit of the Commonwealth Parliament's decision to increase the compulsory Superannuation Guarantee (SG) percentage rate, which will rise from 9% to 12% over a number of years.

The entitlement to the additional employer contributions was backdated to 1 July 2013, with an employer required to contribute the equivalent of 0.25% of each eligible employee's salary for the 2013–14 to 2020-21 financial years. For the 2021-22 financial year the rate was 1.0% and increased to 1.5% for the 2022-23 financial year. AEC accounts were created in May 2016 with a starting balance representing the outstanding contributions due to members from 1 July 2013 to 30 April 2016, plus the investment earnings that would have accrued on those contributions had they been paid when they were due. Contributions tax of 15% was taken into account in determining the amount of the starting balance. For members who were eligible for these contributions but who had ceased employment after 30 June 2013, the contributions due plus investment earnings, less the 15% contributions tax, were paid to them following the creation of the accounts in May 2016.

From May 2016 employers have been paying additional monthly contributions into eligible member's AEC accounts, calculated at the required percentage rate of a member's salary. Contributions tax of 15% is deducted from these contributions when they are received by State Super. To find out more about the AEC and if it is applicable to you, please refer to STC Fact sheet 20: *SANCS Additional Employer Contributions (AEC) Account*.

Additional no-TFN employer contributions tax

If you have not provided State Super with your TFN, an additional tax of 32% (on top of the 15% employer contributions tax) may be applied to your employer (including salary sacrifice) contributions. This tax is assessed at 30 June each year beginning from 30 June 2008.

As you contribute to a defined benefits fund, the amount of employer contributions to which this additional tax is applied is calculated using a method provided by the ATO and advice from the scheme's actuaries.

State Super is required to reduce member benefits by any contributions tax paid on employer contributions, to enable the fund to recover the additional tax paid. If additional tax has been paid in regards to your employer contributions a reduction will be made to your benefit when you exit the scheme. This reduction may be reduced if you provide your TFN.

No-TFN contributions tax on AEC contributions

If you have not provided State Super with your TFN, and you are eligible to receive AEC contributions, no-TFN contributions tax is also payable on the AEC contributions that are paid into your AEC account during a financial year. However, this tax is deducted from your AEC account on 30 June of the relevant year, rather than being deducted from your benefits when you exit the scheme. This is because the AEC account is an accumulation style superannuation benefit rather than a defined benefit.

Tax deduction for personal contributions

From 1 July 2017 the eligibility requirements for individuals to claim a tax deduction on personal contributions to super have been relaxed, which extends this option to individuals that did not meet the previous definition of 'substantially self-employed'. This measure improves access to superannuation concessions for those who may be self-employed on a part time basis or if their employer does not offer salary sacrifice.

The new eligibility requirement does not allow members of a defined benefit fund to claim a tax deduction where the fund notifies the ATO before the start of an income year that the fund has elected to treat all member contributions to the fund as non-deductible. STC has made an election to make member contributions to SASS, SSS and PSS non-deductible for the 2017-18, 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 income years as the rules of the fund do not currently provide for contributions to be deductible and the option to salary sacrifice member contributions is generally available to members across all funds.

Excess contributions

From 1 July 2007, there is a cap on the amount of contributions paid into superannuation funds which will be treated on a concessionally taxed basis. While contributions in excess of these caps can be accepted by superannuation funds, the excess will be subject to additional tax. There are separate contribution caps for concessional (which includes employer and salary sacrifice contributions) and non-concessional contributions (which includes your personal after-tax contributions). Special contribution cap rules apply to members of the State Super schemes.

The amount of contributions made in a financial year that is in excess of these caps may have additional tax applied in addition to the normal rates of tax that apply to contributions – the normal rates are 15% for employer contributions and nil for personal after-tax contributions.

It is therefore important that you understand how the caps and additional tax are applied. Further information can be found in:

SASS Fact Sheet 16: *SASS Contribution caps and your total superannuation balance*

SSS Fact Sheet 23: *SSS Contribution caps and your total superannuation balance*

PSS Fact Sheet 16: *PSS Contribution caps and your total superannuation balance*

Division 293 tax

Division 293 tax was introduced from 1 July 2012 and is an additional tax of 15% that applies to the concessionally taxed contributions of very high income earners. A very high income earner is an individual whose total income and concessionally taxed superannuation contributions for an income year are above the specified income threshold for a financial year.

The Income thresholds are as follows:

Financial year	Threshold
2012-13 to 2016-17	$300,000
2017-18 onwards	$250,000

This tax will apply to low tax contributions, which are a member's concessionally taxed contributions less excess concessional contributions. Amounts in excess of the concessional contribution cap are not low tax contributions as they are subject to the excess concessional contributions regime. Low tax contributions include defined benefit contributions, which are calculated using special rules.

Individuals affected by the change are liable to pay the additional 15% of the low tax contributions (including defined benefit contributions) which exceed the income threshold for the relevant financial year.

Example

For the 2022-23 financial year Kevin's notional taxed contributions for his defined benefit fund were $20,000, he also salary sacrificed a further $10,000 in compulsory contributions to the fund. Therefore, his concessional contributions to his defined benefit scheme totaled $30,000. In addition to his defined benefit contributions Kevin chose to make additional salary sacrifice contributions to another fund of a further $10,000.

The left hand side of the table over the page outlines the concessional contributions Kevin has made for the financial year and how they are treated for contribution cap purposes. The right hand side of the table outlines how these contributions are treated for Division 293 tax purposes and how low tax contribution amounts are determined.

It is important to note that, in regard to defined benefit contributions, the capped amount of contributions is used for concessional contribution calculations whereas the uncapped amount is used to determine low tax contribution amounts.

<table>
<tr><th></th><th colspan="2">Kevin's concessional contributions</th><th colspan="2">Kevin's low-tax contributions (LTC)</th></tr>
<tr><td rowspan="5">Defined benefit amounts</td><td>Notional taxed contributions</td><td>$20,000</td><td>Notional taxed contributions</td><td>$20,000</td></tr>
<tr><td>Plus: compulsory defined benefit salary sacrificed contributions</td><td>$10,000</td><td>Plus: compulsory defined benefit salary sacrificed contributions</td><td>$10,000</td></tr>
<tr><td>Total defined benefit contributions</td><td>$30,000</td><td rowspan="2">Total defined benefit contributions</td><td rowspan="2">$30,000</td></tr>
<tr><td>Concessional contributions limit 2022-23 financial year</td><td>$27,500</td></tr>
<tr><td>Defined benefit (capped amount)*</td><td>$27,500</td><td>Defined benefit (uncapped amount)</td><td>$30,000</td></tr>
<tr><td rowspan="4">Other superannuation amounts</td><td>Plus: additional voluntary salary sacrifice top up contributions</td><td>$10,000</td><td>Plus: low tax contributed amounts that do not relate to a defined benefit
(i.e. Kevin's additional salary sacrifice contributions)</td><td>$10,000</td></tr>
<tr><td>Total concessional contributions</td><td>$37,500</td><td rowspan="2">Less: excess concessional contributions**</td><td rowspan="2">– $10,000</td></tr>
<tr><td>Concessional contribution limit 2022-23 financial year</td><td>$27,500</td></tr>
<tr><td>Total excess concessional contribution amount**</td><td>$10,000</td><td>Total LTC's</td><td>$30,000</td></tr>
</table>

* For the purpose of concessional contribution caps this amount will be reported to the Australian Taxation Office by the fund, unless you are a SASS member who is not entitled to the capped amount. In this case the uncapped amount will be reported. For further information see SASS Fact Sheet 16: *SASS Contribution caps and your total superannuation balance*. For Division 293 purposes, the uncapped amount is reported for all members.

** Excess concessional contributions are not counted for LTC purposes as these are subject to the excess contributions tax regime.

Kevin's taxable income for the financial year was $290,000 and his low-tax contributions were $30,000, which means his total income for Division 293 tax purposes was $320,000. The contributions which are subject to this tax is the lesser of the amount of LTC's ($30,000 in this case) or the amount of income for Division 293 purposes which is above the income threshold for the 2022-23 financial year of $250,000 ($70,000 in this case), so Kevin is liable to pay the additional 15% tax on $30,000.

How will the payment of Division 293 tax operate?

The ATO will assess if a member is subject to Division 293 tax as soon as practicable after the lodgement of the individual's income tax return and the reporting of contributions by the super fund. For defined benefit funds such as SASS, SSS and PSS, the liability for Division 293 tax is deferred for later payment and included in a debt account maintained by the Commissioner of Taxation. Interest accrues on the debt account on an annual basis. Individuals may make voluntary payments to reduce the outstanding balance of the debt account at any time. The Commissioner will credit the payment to the debt account and notify the individual of the new balance of the account.

When an amount of Division 293 tax is assessed for a member of a defined benefit fund, the Commissioner of Taxation will provide the member with a determination of the tax that is to be deferred to the debt account. When a benefit is to be paid out of a defined benefit interest for which a debt account is maintained by the Commissioner, a debt account discharge liability will be issued by the Commissioner (generally the amount in the debt account) which is due and payable within 21 days of the benefit being paid out.

Contributions surcharge tax

Commonwealth contributions surcharge tax was an additional tax levied on the notional employer contributions made on your behalf for each financial year between 21 August 1996 and 30 June 2005. It was payable where your taxable income plus reportable fringe benefits and employer superannuation contributions (the adjusted taxable income) for a financial year, exceeded annually adjusted income thresholds. The rate of this additional tax depended on your adjusted taxable income. The maximum surcharge tax rates were 15% to 30 June 2003, reducing to 14.5% from 1 July 2003, 12.5% from 1 July 2004 and 0% from 1 July 2005.

More information on the Commonwealth contributions surcharge tax and its impact on your benefits are detailed in STC Fact Sheet 1: *Information about the Commonwealth contributions surcharge.*

3. Tax on investment earnings

State Super pays tax on the investment earnings of the schemes. These investment earnings are taxed at a maximum rate of 15%. The fund earning rate that is applied to your personal account is after reduction for this tax payment.

4. Tax on benefit payments

From 1 July 2007, the basis for calculating tax on your superannuation benefits changed as a result of the Commonwealth Government's Better Super measures. The general concept under the new measures was that any benefit taken after the age of 60 will be free from any benefit tax. Benefits taken before age 60 continued to be subject to benefits tax but at concessional rates.

From 1 July 2017, benefits taken after the age of 60 will generally remain tax free, however as part of the 2016/17 Budget, the Government introduced a number of superannuation tax reforms, including the introduction of the 'Transfer balance cap'. Under this measure, some tax may be payable if your pension is more than $106,250 per annum.

Tax components of a benefit

When any benefit is paid, it will be broken down into two tax components, a tax free component and a taxable component. This is done for all benefits irrespective of whether the recipient is under or over age 60 at the time of payment.

To determine the tax components of any benefit paid, the first step is to determine the full tax free amount of a member's full entitlement when a lump sum benefit is paid or a pension commences to be paid.

Full tax free amount

The full tax free amount of your full entitlement is used to determine the tax free component of any individual benefit paid to you or on your behalf.

The full tax free amount consists of:

- the proportion of your entitlements as at 30 June 2007 that accrued before 1 July 1983 (known as a pre 1 July 1983 amount), and
- the amount of personal after-tax contributions you have made to State Super since 30 June 1983 and any Commonwealth Government contributions received by the scheme on your behalf (these contributions are known as non-concessional contributions).

The pre 1 July 1983 amount was calculated on your entitlements as at 30 June 2007. It was based on the proportion of your eligible service as at 30 June 2007 that accrued between your eligible service start date (usually the date you joined the scheme) and 1 July 1983. If your eligible service start date is after 30 June 1983 then this amount will be nil.

Example 1 – calculation of pre 1 July 1983 amount

Jack's eligible service start date for benefit purposes is 30 June 1977. His eligible service period as at 30 June 2007 is therefore 30 years.

His eligible service period to 30 June 1983 was six years*.

His entitlement as at 30 June 2007 has been valued at $350,000 (the value is based on a method for valuing defined benefits interests which is stipulated in Income Tax Regulations).

The value of Jack's pre 1 July 1983 amount is therefore:

$$\$350,000 \times \frac{6 \text{ years}}{30 \text{ years}} = \$70,000$$

This pre 1 July 1983 amount is then added to Jack's non-concessional contributions. The total amount will be Jack's full tax free amount and will be used to determine the tax free component of any individual benefit paid to or on behalf of Jack.

**The number of years is used for the purpose of this example. In practice, the number of days in the respective periods is used.*

Determining the tax free component and taxable component of an individual benefit payment

Members generally have a number of options when accessing benefits. They may include:

- taking the whole benefit as a cash lump sum
- taking part of a benefit as a cash lump sum and rolling over the remainder
- taking part of a benefit as a lump sum and part as a pension.

When making these benefit payments, the full tax free amount of a member's full entitlements must be apportioned between the benefits paid. For example, if a benefit is taken as part cash lump sum and part pension, then the full tax free amount needs to be apportioned partly to the lump sum and partly to the pension. The amount apportioned to the individual benefit then becomes the tax free component of that benefit. The taxable component of the benefit is simply the remainder of the benefit.

The tax free component of a lump sum benefit payment may contain an additional amount if it qualifies as an invalidity benefit for tax purposes (see the *Invalidity benefits* section for more information).

Example 2 – lump sum only: part cash, part rollover

Robert is age 56 and leaves the employment of the NSW Public Sector for a position with ABC Enterprises. On leaving service, Robert is entitled to a lump sum of $300,000. However, as he has not permanently retired from the workforce he is only able to take $100,000 of his payment in cash. He has chosen to rollover the remaining $200,000 to XYZ Super Fund.

Robert has a full tax free amount of $75,000. This must be allocated proportionately between the rollover and cash payment as follows:

Cash payment

Tax free component = $\frac{\$100{,}000}{\$300{,}000}$ x $75,000 = $25,000

Taxable component = $100,000 - $25,000 = $75,000

Rollover

Tax free component = $\frac{\$200{,}000}{\$300{,}000}$ x $75,000 = $50,000

Taxable component = $200,000 - $50,000 = $150,000

Example 3 – pension and lump sum

In this example let us assume that Robert has permanently retired from the workforce. He is eligible to receive a pension of $1,000 per fortnight, and a lump sum basic benefit of $30,000. His full tax free amount is still $75,000.

To apportion the full tax free amount we need to first convert the pension to a lump sum value. This is done using special conversion factors stipulated in Income Tax Regulations. We then need to add the basic benefit to the lump sum value of the pension to determine the value of Robert's full entitlement:

Lump sum value of pension

$1,000 x 26.09 (this is the number of fortnights per year) x 17.659 (the conversion factor based on Robert's age)

= $460,723.31

Value of Robert's full entitlement:

$460,723.31 + $30,000 = $490,723.31

We then apportion the full tax free amount to the lump sum and pension based on these values:

Lump sum

Tax free component = $\frac{30{,}000}{\$490{,}723.31}$ x $75,000 = $4,585.07

Taxable component = $30,000 - $4,585.07 = $25,414.93

Amount apportioned to pension

Tax free component =

$\frac{\$460{,}723.31}{\$490{,}723.31}$ x $75,000 = $70,414.93

This amount is then worked out as a percentage of the total value of the pension to give a tax free percentage of the pension:

Tax free percentage of pension = $\frac{\$70{,}414.93}{\$460{,}723.31}$ = 15.28%

Each pension payment thus has tax components as follows:

Tax free component = $1,000 x 15.28% = $152.80

Taxable component = $1,000 - $152.80 = $847.20

Pensions which commenced prior to 1 July 2007

Example 3 shows how the tax free percentage of a pension is calculated. It should be noted that this method of calculating the tax free percentage of a pension generally only applies to pensions that commenced on or after 1 July 2007.

If your pension commenced before 1 July 2007 and you are under the age of 60 then the tax rules that applied prior to 1 July 2007 will still apply to you. Those rules also allowed for a tax free amount of a pension and the pre 1 July 2007 method of determining that amount annually will continue.

However, when you reach age 60, commute all or part of your pension or die (known as trigger points), the new rules will be applied to you or your spouse's pension and a tax free percentage of the pension will be calculated. The tax free percentage will be calculated based on a tax free amount that includes the amount of your unused undeducted purchase price and, if your pension commenced after 1 July 1994, a pre 1 July 1983 component of the pension at that time.

Tax free percentage to apply to CPI increases, spouse pensions and commutation of pensions

For pensions that have a tax free percentage (generally those that commenced on or after 1 July 2007), the tax free percentage applies to all future payments arising from the pension.

Some examples of this:

- When your pension increases by CPI each year, the tax free percentage is applied to the increased pension, thus meaning the actual tax free component of the pension payment also increases in line with the CPI rise.
- If you commute all or part of the pension, the tax free percentage is applied to the lump sum payment to determine the tax free component of the lump sum.
- On death, if your spouse receives a reversionary pension, the tax free percentage will continue to apply to those pension payments.

What amount of tax is payable on the taxable component?

The following section explains what tax is payable on your benefits, a summary of this information can be found at the end of the section.

Members aged 60 or over when a benefit is received

If you are receiving a pension, tax is generally not payable if you are over the age of 60, but some tax may be payable if your pension is more than $106,250 per annum. Tax may be payable on your pension if you are under 60.

No benefits tax is payable on superannuation lump sum payments if you are over the age of 60 when the lump sum benefit is received.

These payments are generally not assessable as income for tax purposes, so you do not need to include them in your income tax return at the end of the financial year. However different rules apply to pensions that are more than $106,250 per annum, where you are 60 years or older, or your deceased spouse was over the age of 60 at the time your pension commenced. See the below section on the Transfer balance cap provisions for further information.

If you are in receipt of or intend to apply for a Centrelink pension, then Centrelink will still require information about your scheme benefits. The required Centrelink information will usually be provided to you when you exit the scheme, however, you may also request it by contacting Customer Service.

Members under age 60 when a benefit is received

Lump sums

Tax may be payable on the taxable component of your lump sum, with the tax payable being dependent on whether you are under or over your preservation age* when the benefit is received.

If you are under your preservation age, the taxable component of a lump sum is taxed at the rate of 22%, inclusive of the Medicare Levy.

If you have reached your preservation age* (and you are less than the age of 60), no tax is payable on the first $230,000[†] of the taxable component. The remainder of the taxable component is taxed at 17% inclusive of the Medicare Levy.

The tax rates noted above assume you have provided the scheme with your tax file number. If you do not provide your tax file number you will be required to pay tax on the taxable component at the highest marginal rate (currently 47% inclusive of the Medicare Levy).

*Your preservation age depends on your date of birth and is as follows:

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
On or after 1 July 1964	60

† This is the low rate threshold for the 2022–23 financial year. It is a lifetime limit and is adjusted in accordance with movements in average weekly ordinary time earnings in $5,000 increments.

Pensions

The taxable component of your pension is subject to normal PAYG income tax rates.

If, at the time of receiving a pension payment, you have reached your preservation age, are the spouse of a deceased member, or in receipt of an invalidity pension where the criteria to provide two medical certificates (see the *Invalidity benefits* section for more information) is satisfied, the pension will attract a 15% tax offset.

As soon as you turn age 60, generally no tax will be payable on your pension or any lump sum commutation that subsequently becomes payable. Some tax may be payable if your pension is more than $106,250 per annum.

Invalidity benefits

A member who is paid a lump sum benefit before age 60 because of ill-health (an invalidity retirement), may qualify for an additional tax free component. The additional tax free component will be based on the period of fund service to the date of payment and what would have been your potential service to age 65.

Where an invalidity benefit is a pension, the recipient is entitled to a 15% tax offset even though they have not satisfied the usual qualifying rule for the offset of having attained their preservation age.

A superannuation benefit is an invalidity benefit for tax purposes if the benefit is paid due to a disability and two medical practitioners have certified that, in their opinion, the disability is likely to result in you being unable to ever be employed in a capacity for which you are reasonably qualified because of education, training or experience.

Terminal medical condition – special tax rule

A lump sum superannuation benefit payment (including the basic benefit) that would otherwise be subject to tax may be received tax free by a person who is suffering from a terminal illness that is likely to result in their death within 24 months.

Only a lump sum benefit paid to a member under age 60 is subject to tax – see *Members under age 60 when a benefit is received* on page 7.

To qualify for tax free treatment of an eligible lump sum benefit, two certificates of incapacity completed by medical practitioners must be supplied. At least one of the medical practitioners must be a specialist with qualifications relevant to the illness. The certificates must state that the applicant is suffering from a terminal medical condition which, in the normal course, would result in their death within 24 months of the certification date. STC 227 forms: *Certificate of incapacity* are available from the State Super website or by calling Customer Service – see more information at the end of this Fact Sheet.

Death benefits

The taxation of a death benefit depends on whether the payment is made to a dependant or non dependant.

A dependant for tax purposes includes:

- your spouse or former spouse (including a de facto partner of the same sex or opposite sex), and
- your child who is under 18 years, and
- any person with whom you had an interdependency relationship, and
- any other person who was financially dependent on you at the time of death.

An **interdependency relationship** is defined as a relationship between two persons, whether or not they are related where:

- they have a close personal relationship, and
- they live together, and
- one or each of them provides the other with financial support, and
- one or each of them provides the other with domestic support and personal care of a type and quality normally provided in a close personal relationship, and
- any other person who is your dependant just before you die.

In the situation where all the above criteria are not met due to the fact that either person has a physical, intellectual or psychiatric disability, an interdependency relationship will still exist as long as the two persons have a close personal relationship.

An interdependency relationship does not exist if one person provides domestic support and personal care to the other person under an employment contract or on behalf of another person or organisation.

In determining whether an interdependency relationship exists, matters including, but not limited to, the duration of the relationship, ownership of property and the nature of the relationship, will be taken into account.

Lump sums

A lump sum death benefit paid directly to your dependant is tax exempt.

If paid to a non dependant, tax is payable on the taxable component of a lump sum at 17%, inclusive of the Medicare Levy.

Where payment of a benefit is made to your estate, no tax will be deducted by the scheme administrator when making the payment. However, tax may be payable by the estate if the ultimate beneficiary of the benefit is not your dependant.

Pensions

If they meet the definition of dependant described previously, a pension payment to your eligible spouse or de facto partner is generally tax exempt if they are aged 60 or over when a benefit is received. It is also generally tax exempt if they are under the age of 60 when the benefit was received but you were aged 60 or more at your date of death.

However tax may be payable on pensions that are more than $106,250 per annum. See the following section on the Transfer balance cap for further information.

If your spouse is under the age of 60 when they receive a pension payment, and you were under age 60 at the time of death, the taxable component of the pension will be taxed at normal PAYG income tax rates. The pension will however attract a 15% tax offset.

The transfer balance cap

What are the new rules?

From 1 July 2017 a transfer balance cap applies on the total amount of superannuation savings that can be transferred from the concessionally taxed accumulation phase of superannuation to the tax-free retirement phase of superannuation.

The general transfer balance cap was set at $1.6 million for the 2017–18 income year, and remained at that value for the 2018–19, 2019–20 and 2020–21 financial years. The general transfer balance cap is subject to indexation in line with CPI increases, but is only increased in increments of $100,000. From the 2021–22 financial year the general transfer balance cap increased to $1.7 million.

If you start a retirement phase income stream for the first time on or after 1 July 2021, you will have a personal transfer balance cap of $1.7 million.

If you had a transfer balance account before 1 July 2021, your personal transfer balance cap will be:

- $1.6 million if, at any time between 1 July 2017 and 30 June 2021, the balance of that account was $1.6 million or more
- between $1.6 and $1.7 million in all other cases, based on the highest ever balance of your transfer balance account.

You can view all transfer balance cap information in ATO online. You can access ATO Online through the MyGov website at the following address: https://my.gov.au

If you exceed your personal transfer balance cap, you will need to either transfer the excess back to an accumulation super account or withdraw the excess amount from super altogether, or, in the case of recipients of a capped defined benefit pension - such as a SASS, SSS or PSS pension - you may have to pay tax on part of your pension income. If you are receiving a SASS, SSS or PSS pension in excess of $106,250 per annum you will have to include 50% of the amount over $106,250 in your assessable income and pay tax on that income at your marginal tax rate. The transfer balance cap applies to both existing retirees, as well as individuals who start a new pension in the future.

The transfer balance cap and State Super defined benefit pensions

Special rules apply for defined benefit pensions which have commutation restrictions such as those paid by State Super. Where these pensions are given a transfer value of over $1.7 million, members will not be required to commute (exchange) the excess amount of their pension to a lump sum and remove it from the retirement phase of superannuation.

How do I calculate the transfer value of my SASS/SSS/PSS pension?

Gross fortnightly pension ÷ 14 × 365 = annual pension amount

Annual pension amount × 16 = Transfer balance value

So, a defined benefit pension that pays $106,250 p.a. would exhaust the transfer balance cap in the 2022-23 financial year.

However in order to maintain a similar taxation outcome, pension payments above $106,250 p.a. will become subject to income tax. For defined benefit pensions paid to members aged 60 years and over, such as those paid from State Super, 50% of pension payments over $106,250 p.a. will be included in the recipient's assessable income and will be subject to income tax at marginal tax rates. Members under age 60 receiving a death (spouse) benefit pension will also be subject to these arrangements in relation to any part of their combined pension over $106,250 p.a.

If members have additional funds in a non-defined benefit superannuation retirement account (such as an allocated pension) it is the combination of the valuation of their defined benefit pension and the allocated pension which needs to be valued at under the member's personal transfer balance cap. If the combined value is above the member's personal transfer balance cap, the member will be required to either withdraw the excess from their allocated pension or transfer the excess funds back into the accumulation phase where earnings will be subject to 15% superannuation tax.

Tax summary

The following tables briefly summarise the rates of tax that are payable on superannuation benefits.

Lump sums

Condition	Tax payable on taxable component
60+ years old	Nil
Less than 60 but over preservation age	TFN provided First $230,000† (indexed): nil Remainder: 17%* TFN not provided: 47%*
Under preservation age	TFN provided: 22%* TFN not provided: 47%*
Death (dependant)	Nil
Death (non-dependant)	17%*

†This is the low rate threshold for the 2022–23 financial year. It is a lifetime limit and is adjusted in accordance with movements in average weekly ordinary time earnings in $5,000 increments.

*The tax rates shown include the 2% Medicare Levy.

Pensions

Condition	Tax payable on tax free and taxable component
60+ years old and pension less than $106,250 p.a.	Tax free component: Nil Taxable component: Nil
60+ years old and pension greater than $106,250 p.a.	If the total of the tax free and taxable components is greater than $106,250 p.a. then 50% of the income above $106,250 is assessable and PAYG income tax rates apply.
Less than 60 but over preservation age	Tax free component: Nil Taxable component: PAYG income tax rates apply, eligible for 15% tax offset.
Under preservation age	Tax free component: Nil Taxable component: PAYG income tax rates apply, eligible for 15% tax offset if an invalidity pension and certificates of incapacity provided.
Spouse pension: Recipient aged 60+, or deceased was 60+ at date of death and pension less than $106,250 p.a.	Tax free component: Nil Taxable component: Nil
Spouse pension: Recipient aged 60+, or deceased was 60+ at date of death and pension greater than $106,250 p.a.	If the total of the tax free and taxable components is greater than $106,250 p.a. then 50% of the income above $106,250 is assessable and PAYG income tax rates apply.
Spouse pension: Recipient aged less than 60 and deceased was less than 60 at date of death	Tax free component: Nil Taxable component: PAYG income tax rates apply, eligible for 15% tax offset.

If you receive a lump sum cash payment and you are under age 60 then you will receive a *Superannuation lump sum payment summary* (payment summary) with your payment. You will be required to include the details shown on the payment summary in your next tax return. If you are over the age of 60, no payment summary will be issued as the payment is not assessable for tax purposes and it is not required to be included in a tax return.

If you are in receipt of a pension you will receive a *Superannuation income stream payment summary* (payment summary) at the end of each financial year. You may be required to include the details shown on the payment summary on your next tax return if you have assessable income.

Rollovers

A lump sum superannuation benefit may be rolled over (transferred) to any complying superannuation scheme or other roll over institution. The advantages of rolling over a superannuation benefit are:

- the benefit continues to receive a concessional tax rate (maximum of 15%) on investment earnings
- if rolled over to a retirement income stream product (usually only applicable if you are aged 55 or over), then no tax is payable on the investment earnings (subject to the transfer balance cap limit).
- the benefit may be kept within the superannuation system and accessed when you reach age 65 or earlier if you have reached your preservation age and met a Commonwealth Government condition of release.

Benefits are not assignable

Benefit entitlements from the scheme cannot be assigned, charged or passed on to another person. This means that a member cannot use a prospective benefit entitlement as security for a current debt or liability. However, at the time of exit from employment, the member may direct Mercer to pay the benefit to a bank, building society or credit union account.

03/08/2022

More information

If you need more information, please contact us:

Telephone: **SASS** 1300 130 095 **SSS** 1300 130 096 **PSS** 1300 130 097 **Deferred Benefits** 1300 130 094
8.30 am to 5.30 pm, Monday to Friday.

Personal interviews: Please phone to make an appointment.

Postal address: State Super, GPO Box 2181, Melbourne VIC 3001

Internet: www.statesuper.nsw.gov.au

Email: enquiries@stc.nsw.gov.au