

Information about the Commonwealth contributions surcharge

This fact sheet gives you information about the Commonwealth Government's contributions surcharge that applied to surchargeable contributions made up to 30 June 2005. The information is relevant to members of the State Authorities Superannuation Scheme (SASS), the State Superannuation Scheme (SSS), the Police Superannuation Scheme (PSS) and the State Authorities Non-contributory Superannuation Scheme (SANCS).

What is the superannuation contributions surcharge?

The superannuation contributions surcharge ("surcharge") is a Commonwealth Government tax that was levied on surchargeable superannuation contributions of higher income individuals in the financial years from 1997 to 2005.

The surcharge was calculated using your 'adjusted taxable income' for a financial year. If your adjusted taxable income exceeded a minimum threshold in a financial year, the surcharge applied to your surchargeable contributions. See the section on "How was my surcharge calculated?"

The Commonwealth legislation has been amended to effectively remove any new surcharge assessments in respect of employer superannuation contributions made for employer-financed benefits accruing to members after 30 June 2005.

However, surcharge remains payable in respect of:

- any surcharge liability that existed at 30 June 2005, and

- any subsequent Australian Tax Office ("Tax Office") surcharge assessments in respect of surchargeable contributions up to 30 June 2005.

Your annual statement will show your surcharge debt and any transactions on your account.

Note: Your adjusted taxable income was calculated by the Tax Office and was made up of:

- your taxable income from all sources
- your surchargeable (employer's) contributions
- certain components of an eligible termination payment
- from 1 July 1999, the value of any fringe benefit amounts you received.

How were your surchargeable contributions calculated?

For accumulation schemes such as Aware Super, the calculation of surchargeable contributions for each member was simply the total of taxable contributions received by the scheme on the member's behalf.

For defined benefit schemes like SASS, SSS, PSS and SANCS, the calculation of surchargeable contributions was more complex but was consistent with processes set out in Commonwealth legislation, as follows:

- Each year, the scheme actuary calculated a Notional Surcharge Contributions Factor (NSCF) for each member of the State Super scheme. Your NSCF took into account a range of factors, including your age, sex, length of potential

The STC schemes are administered by Mercer Administration Services (Australia) Pty Ltd on behalf of the schemes' trustee, SAS Trustee Corporation (STC). STC is governed by the *Superannuation Act 1916*, the *State Authorities Superannuation Act 1987*, the *State Authorities Non-contributory Superannuation Act 1987*, the *Superannuation Administration Act 1996* and the *Police Regulation (Superannuation) Act 1906*. The schemes are also subject to Commonwealth superannuation and tax legislation.

STC has published this fact sheet. STC is not licenced to provide financial product advice in relation to the STC schemes or to their members.

Reasonable care has been taken in producing the information in this fact sheet and nothing in it is intended to be or should be regarded as personal advice. If there is any inconsistency between the information in this fact sheet and the relevant scheme legislation, the scheme legislation will prevail. In preparing this fact sheet, STC has not taken into account your objectives, financial situation or needs. You should consider your personal circumstances, and possibly seek professional advice, before making any decision that affects your future.

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service, contribution rate, possible benefits payable and a cost for any death and invalidity benefits.

- The NSCF was multiplied by your superable salary to determine your surchargeable contributions.

Surchargeable contributions could also include a surchargeable portion of an employer eligible termination payment paid to higher income individuals.

Note: The contributions actually paid to the scheme by your employer on your behalf were not related to your surchargeable contributions calculated by the scheme actuary. Similarly, amounts deducted from salary packages as superannuation on-costs were not related to surchargeable contributions.

How was my surcharge calculated?

The tax rate used to determine your surcharge depended on the level of your adjusted taxable income, as follows:

- if your adjusted taxable income was below the minimum income threshold, no surcharge was assessed
- if your adjusted taxable income exceeded the maximum income threshold, your surcharge was assessed using the maximum surcharge rate
- if your adjusted taxable income was between the two thresholds, the surcharge rate increased gradually from 0% at the minimum income threshold to the maximum surcharge rate at the maximum income threshold.

The table below shows the income threshold levels and the maximum surcharge rate for each financial year:

Year	Adjusted taxable income		Maximum surcharge rate
	Minimum threshold	Maximum threshold	
1996-97	\$70,000	\$85,000	15%
1997-98	\$73,220	\$88,910	15%
1998-99	\$75,856	\$92,111	15%
1999-00	\$78,208	\$94,966	15%
2000-01	\$81,493	\$98,955	15%
2001-02	\$85,242	\$103,507	15%
2002-03	\$90,527	\$109,924	15%
2003-04	\$94,691	\$114,981	14.5%
2004-05	\$99,710	\$121,075	12.5%
2005-06 onwards	Not applicable	Not applicable	0.0%

Is my Tax File Number (TFN) important?

Your TFN was especially important during the financial years in which the surcharge applied (see table in previous column). This was because the Tax Office used the maximum surcharge rate to calculate a taxpayer's surcharge liability where a TFN had not been provided to their scheme. Provision of your TFN remains important.

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 us in writing that your TFN not be disclosed to any other superannuation provider.

It is not an offence not to quote your TFN. However, giving your TFN to your superannuation fund will have the following advantages (which may 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
- 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.

You can supply your TFN by telephoning Customer Service on the numbers shown. Alternatively, you can download State Super's *Tax file number collection* form from our website www.statesuper.nsw.gov.au and post it to the address shown.

When can I pay my surcharge?

Any outstanding surcharge amount:

- may be paid at any time while you're a member of a State Super scheme
- must be paid at the time that an exit benefit is paid or a pension is commenced.

How can I pay my surcharge debt?

At any time prior to your exit from the schemes, you may pay all or part of your surcharge debt by making a payment to State Super.

If you are paying off your surcharge debt at the time of receiving a lump sum payment or commencing a pension, your payment options are:

- non superannuation assets: you may use any available funds that you have saved outside of superannuation to pay the debt
- if you are a member of SANCS: you may use any SANCS benefit (including, if applicable, any accumulated Commonwealth Government co-contributions) to offset part or all of the surcharge debt
- if you are a SASS member: you may use your lump sum benefit to offset the surcharge debt
- if you are a SSS or PSS member: you may request a pension reduction to offset the debt. See the section on “How is my pension reduced to pay a surcharge debt?”

If you do not give instructions for payment of your surcharge debt, your SANCS benefit will be reduced first, with any remaining surcharge debt being met by a deduction from your lump sum benefit or a reduction in pension payments.

Note: State Super is unable to advise which is the best option for you. You should seek professional financial advice to determine the payment option that best suits your circumstances.

Will interest be charged on my outstanding surcharge debt?

Each year, a **full year's** interest will be added to any balance in your surcharge debt account on 30 June. Commonwealth legislation requires that the interest rate used for this purpose will be the Commonwealth 10-year Treasury Bond rate.

If you want to avoid a full year's interest charge, any payment of a surcharge debt must be received by State Super's administration area before the close of business on 30 June.

Is there a cap on my surcharge?

The legislation for the State Super schemes provides that your liability for surcharge tax will not exceed an amount based on the maximum surcharge rates applicable to the employer financed part of your benefit that accrued for service after 20 August 1996.

This maximum is calculated when your benefit becomes payable and any excess is payable by your employer.

If you receive an assessment after you have been paid a benefit or commenced a pension, you can apply to have your post exit surcharge assessment measured against the surcharge cap. See the section on “What happens if I receive a surcharge tax assessment after I have left the scheme?”.

Note: Any previous payments made by you to offset a surcharge debt and any interest accrued is taken into account when your maximum liability is calculated.

How is my pension reduced to pay a surcharge debt?

If you commence to receive a pension and want to reduce this benefit to pay your surcharge debt, the reduction in pension is determined by the following formula:

$$PR = SD / F$$

where PR = reduction in pension
SD = surcharge debt
F = a pension capitalisation factor which has been determined by the scheme actuary for payment of surcharge debts – this factor varies according to your scheme, age, sex and type of pension.

Example:

A SSS male member who retires at age 60 on a before tax pension of \$1,530 per fortnight may repay a surcharge debt of \$2,337.96 by reducing his pension by \$5.71 per fortnight (SD = \$2,337.96 and F = 409.20).

Note: A pension reduction to meet a surcharge debt is a **permanent** reduction in your pension entitlement. A spouse's pension benefit will also be reduced because spouse pensions are generally based on a percentage of the member's entitlement at the date of death.

What if I do not agree with the surchargeable contributions details reported to the tax office?

If you believe that State Super did not hold the correct information (for example, if you left the scheme part way through a year, or were on leave without pay) that could have substantially affected your notional employer-financed benefit accrual during any financial year in which surcharge assessments applied, you may request State Super to recalculate your surchargeable contributions. If a reasonable

request is made, the actuary will be asked to ensure that the surchargeable contributions calculation is valid for the financial year period requested.

It should be noted that for some scheme members (particularly SSS and PSS members), surchargeable contributions could have exceeded 30% of the member's salary. This may have occurred when members had large salary increases or had potentially shorter than average scheme membership. For members in SASS, the surchargeable contributions could range from 5% of salary to approximately 30% of salary, depending on the member's own contribution rate. The estimated cost of death or invalidity benefits could also increase a member's surchargeable contributions, particularly for younger members with larger amounts of future service.

Note: Members should not compare the increase in the value of their resignation benefits as a basis for requesting State Super to recalculate their surchargeable contributions if they consider them to be excessive.

What do I need to do if I do not agree with my surcharge assessment?

As surcharge assessments are determined by the Tax Office, State Super is unable to lodge an individual objection on your behalf. If you are unhappy with your surcharge or with your surcharge assessment, you should forward your objection directly to the Tax Office.

What happens to my surcharge debt if I choose to defer my benefit?

If you defer your benefits, payment of your surcharge debt is also deferred.

Any surcharge tax assessed by the Tax Office after you leave employment but before you take your benefit will be added to your surcharge debt account.

The rules about the cap on your surcharge liability and your payment options will apply at the time you take your benefit.

What happens if I receive a surcharge tax assessment after I have left the scheme?

Surcharge tax assessments are generally issued by the Tax Office six months or more in arrears. For example, an assessment received in May 2006 is likely to have been for the financial year ended 30 June 2005.

When you take a benefit from your scheme, you might be subject to further surcharge assessments. These will be issued by the Tax Office directly to you, unless the benefit has been rolled over to another superannuation scheme or arrangement. In this case, assessments will be directed to your rollover fund.

If you receive a 'post-exit' surcharge assessment in respect of your employment while a member of the SASS, SSS, PSS or SANCS schemes, you are still covered by the surcharge 'cap' and are advised to contact State Super to have the provisions applied. If all or part of an assessment exceeds your cap, State Super will pay the Tax Office the excess amount (or arrange to reimburse you if the assessment has already been paid).

If part or all of an assessment falls below your cap and you are in receipt of a pension, you may ask State Super to pay the Tax Office on your behalf and to reduce your pension appropriately. This payment represents an eligible termination payment and will be taxed accordingly.

For further information on post exit surcharge assessments, see STC Fact Sheet 12 *Payment of Surcharge Assessments received after being paid a benefit or pension commencement*.

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

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