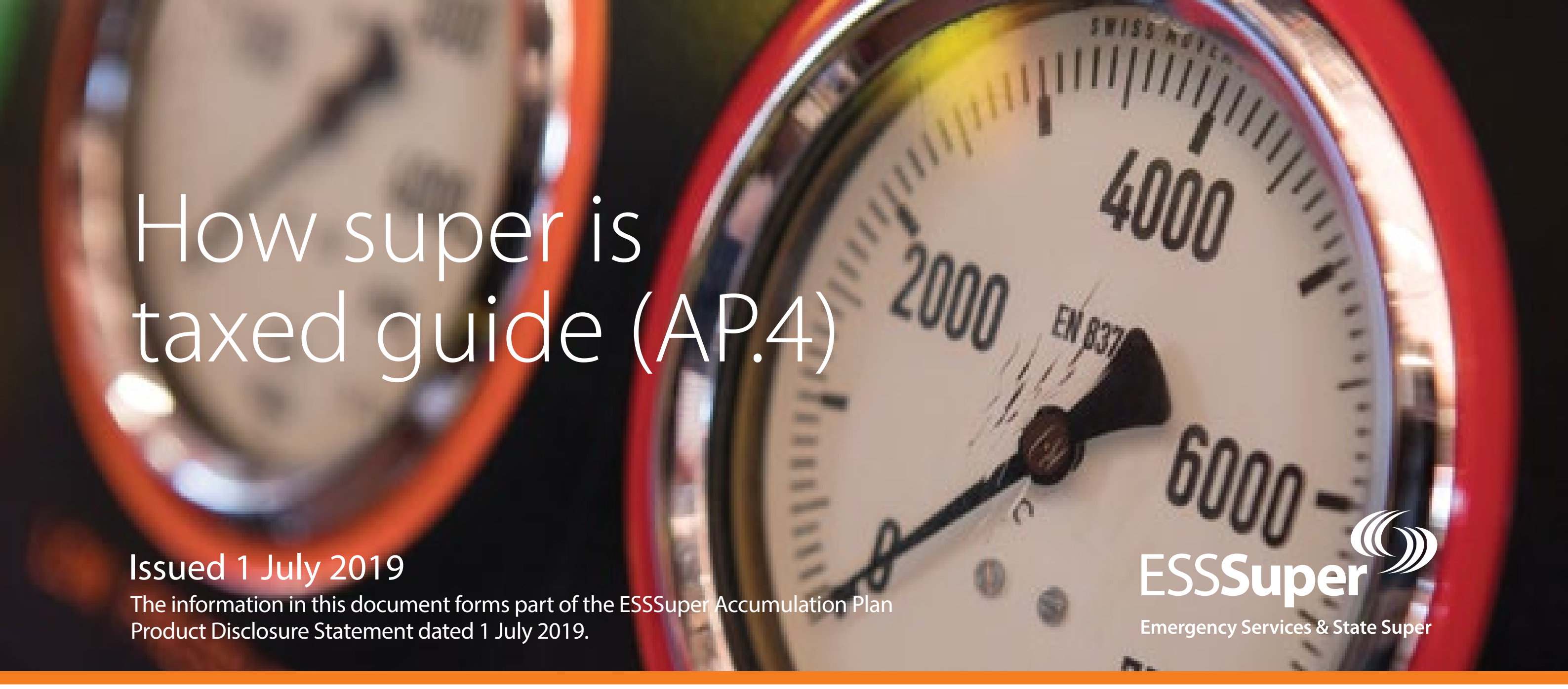


How super is taxed guide (AP.4)

Issued 1 July 2019

The information in this document forms part of the ESSSuper Accumulation Plan Product Disclosure Statement dated 1 July 2019.

ESSSuper
Emergency Services & State Super

Contents

This Incorporated Guide has been issued to help you make an informed decision about ESSSuper's products, features and benefits. It's of a general nature only and doesn't take into account your personal or financial objectives, situation or needs. Before making a decision about an ESSSuper product, consider seeking professional advice from a licensed financial advisor. The information in this document is up-to-date at the time of issue but may change from time to time. When a change is not materially adverse, it will be updated and published on the ESSSuper website at **esssuper.com.au**. A paper copy of any updated information will be provided without charge on request.

> **Note:**
> Providing your Tax File Number to your super fund gives you a number of advantages that may not otherwise apply.

Providing your Tax File Number (TFN)

Under tax laws, and the *Superannuation Industry (Supervision) Act 1993*, ESSSuper is authorised to collect your TFN and will use it only for lawful purposes, including:

- calculating tax on any super benefit to which you are entitled and providing information to the Commissioner of Taxation
- transferring your benefit to a complying super fund, an Exempt Public Sector Superannuation Scheme, or to a retirement savings account, where we may disclose your TFN to the trustee or provider of that fund or account or the Commissioner of Taxation, unless you advise us in writing not to disclose it.

You are not obliged by law to provide your TFN and it is not an offence to not quote your TFN, however, providing your TFN to ESSSuper will have the following advantages (which may not otherwise apply):

- ESSSuper will be able to accept all types of contributions to your account
- ESSSuper will be able to use your TFN to identify your account and contributions that your employer may make on your behalf
- ensure you receive the Government co-contribution if you are eligible
- the tax on super contributions will be at the concessional rate instead of the highest marginal tax rate (unless you make excess contributions)
- other than the tax that may ordinarily apply, no additional tax will be deducted when you start drawing down your super benefits
- it will be easier to trace different super accounts in your name so that you receive all of your super benefits when you retire.

If we do not have your TFN, we will not be able to accept personal contributions from you and you will pay more tax on your superannuation.

The lawful purposes for which we can use your TFN, and the consequences of not providing your TFN, may change in the future as a result of legislative change. To provide your TFN, please complete the *Tax File Number Notification form (ES157)*, available from our website at **esssuper.com.au/forms**, and return it to us.

We may also use your TFN to identify multiple accounts within ESSSuper and consolidate them where permitted under law.

Tax on contributions

The tax paid on super contributions depends on your age, the amount and type of contributions and whether you have provided ESSSuper with your TFN. There are caps on the amount of concessional (before-tax) contributions you and your employer can make to your super. If you exceed these caps, you may pay extra tax. Also, if we don't have your TFN, all contributions will be taxed at 47%[1]. The table below shows the tax that applies if we have your TFN.

Type of contribution	Tax rate
Concessional (e.g. employer superannuation guarantee and salary sacrifice)	• 15% on amounts up to \$25,000[2] a year • Where your combined income including concessional contributions exceeds \$250,000 p.a., an additional 15% tax will apply to concessional contributions relating to the income exceeding \$250,000
Non-concessional	• 0% on amounts up to \$100,000[2, 3, 4] a year • 47%[1,3] on amounts above \$100,000[2, 3, 4] a year

[1] Rates shown include the Medicare levy of 2%.

[2] Contribution caps are for the 2019/20 year and may change in the future.

[3] If you're under age 65 at 1 July, you can depending on your balance bring forward two years and contribute up to \$300,000 tax free for a three year period. Any contributions above the cap (or above \$300,000 over three years if applicable) are taxed at 47% (including Medicare levy of 2%) unless withdrawn.

[4] If you have a Total Super Balance of \$1.6 million or more at 30 June of the previous financial year, your non-concessional contributions cap is zero and any non-concessional contributions you make will be subject to excess non-concessional contributions tax and taxed at the highest marginal tax rate.

You may be able to elect to release up to 85% of your excess concessional contributions from the fund. Excess concessional contributions over the above caps will be taxed at your marginal rate (plus the excess concessional contributions charge). You should monitor all contributions (made by you and on your behalf) into your account to ensure they don't exceed the caps.

Contributions tax is deducted from your account as at 30 June each year on closure of your account or as required (after insurance premiums and administration fees have been deducted from your account).

Tax on concessional (before tax) contributions

Contributions made from your before tax income, including superannuation guarantee (SG) contributions made by your employer and salary sacrifice contributions, are called concessional contributions. Any personal contributions for which you claim a tax deduction (e.g. contributions by self-employed persons) are also concessional contributions (see 'Personal tax deductible contributions' on page 4).

Cap on concessional contributions

The Government has set a cap called the concessional contributions cap on the amount of concessional contributions you can make in a financial year (i.e. 1 July to 30 June). For the 2019/20 financial year, you can contribute a maximum of \$25,000. Additional tax applies to concessional contributions made above the concessional contributions cap. The cap is applied once per person, not per super fund. This means if you have more than one super fund, all concessional contributions made to all of your funds (including employer and salary sacrifice contributions to a defined benefit fund) are added together and count towards the same cap.

Excess concessional contributions are deemed to be non-concessional contributions and count towards the non-concessional caps.

If you have a Total Super Balance below \$500,000, any unused portion of the concessional cap each year can be carried forward on a rolling basis up to a maximum of 5 years.

The concessional contributions cap is indexed to Average Weekly Ordinary Time Earnings, but only increases when this indexation results in an increase of \$5,000 or more.

> **Note:**
> To calculate your concessional contributions to an ESSSuper defined benefit fund (also called 'notional taxed contributions'), you can use the concessional contributions calculator available on our website at **esssuper.com.au/calculator** or call our Member Service Centre.

Tax on concessional contributions up to the cap

If you have provided ESSSuper with your TFN, concessional contributions up to the cap are taxed at 15%. This tax is deducted from your account at 30 June each year and upon closure of your account. If you earn more than $250,000 of assessable income per year (including superannuation contributions), an additional 15% tax will apply to your concessional contributions relating to the income exceeding $250,000.

An amount of up to $500 will generally be paid by the ATO to eligible people earning less than $37,000 per year. This effectively compensates the member for the contributions tax they would have paid.

If you have not provided your TFN, concessional contributions are taxed at the top marginal rate of 47% including Medicare levy of 2%. This additional tax is imposed on ESSSuper and we recover it from your account. However, if you provide your TFN to ESSSuper within three years from the beginning of the financial year after this additional tax was deducted, and you are still a member of the Accumulation Plan, ESSSuper can apply to have this tax refunded by the ATO and allocated to your account.

Excess concessional contributions above the cap

You may be able to elect to release up to 85% of your excess concessional contributions from the fund. Excess concessional contributions over the above caps will be taxed at your marginal rate if not withdrawn (plus the excess concessional contributions charge).

Tax on non-concessional (after tax) contributions

Contributions made from your after tax income are called non-concessional contributions and include personal contributions, spouse contributions and the Government co-contribution.

You can only make non-concessional contributions to your account if your Total Super Balance is less than the general transfer balance cap ($1.6 million for 2019/20 financial year) at the beginning of the financial year.

Cap on non-concessional contributions

The Government has currently set a cap, called the non-concessional contributions cap, on the amount of non-concessional contributions you can make in a financial year (i.e. 1 July to 30 June) before additional tax applies. You can contribute a maximum of $100,000 a year if you are aged between 65 and 74, and meet the work test*. If you are under age 65 at 1 July of the financial year, you may be able to contribute up to three times the annual non-concessional contribution cap under a 'bring forward' arrangement. The non-concessional cap you can bring forward and whether you can bring forward two or three year's worth of non-concessional contributions depends on your Total Super Balance. These conditions are outlined in the table below.

Total Super Balance as at previous financial year	First year non-concessional contribution cap	Period brought forward
Less than $1.4 million	$300,000	3 years
$1.4 million to less than $1.5 million	$200,000	2 years
$1.5 million to less than $1.6 million	$100,000	Nil
$1.6 million	Nil	Nil

The three-year period starts with the year that you first contribute more than the non-concessional contributions cap and your contributions must not exceed a maximum of $300,000 over a period of three years. The Government co-contribution is not counted towards the non-concessional contributions cap, however spouse contributions count towards the spouse's non-concessional cap.

The cap is applied per person, not per super fund. This means if you have more than one super fund, all non-concessional contributions made to all of your funds (including any defined benefit funds) are added together and count towards the same cap. If you exceed the cap, any non-concessional contributions above the cap will be taxed at 47% including Medicare levy of 2%.

* Work test: Individuals aged 65-74 must have worked at least 40 hours in not more than 30 consecutive days in the financial year that the contribution is made. You may be eligible for the Work Test Exemption if you were working in the previous financial year. See Work Test Exemption section for more information.

Tax on non-concessional contributions up to the cap

If you have provided ESSSuper with your TFN, non-concessional contributions up to the cap are tax free.

Excess non-concessional contributions above the cap

You should monitor all contributions (made by you and on your behalf) into your account to ensure they don't exceed the caps. If you exceed the cap and you leave the excess in the fund, any non-concessional contributions above the cap will be taxed at the top marginal rate of 47% including the Medicare levy of 2%.

If you have exceeded the cap, the ATO will send you an excess contributions tax Notice of Assessment for the relevant year, which will include the amount that you have to pay. At the same time, the ATO will send you a Compulsory Release Authority for the amount of the excess non-concessional contributions tax liability, which you must use to authorise the release of the tax amount from your super fund.

You can pay your excess non-concessional contributions tax in a number of ways. You can:

- pay the tax yourself and use the Compulsory Release Authority to ask your super fund to release the money to you, or
- use the Compulsory Release Authority to instruct your fund to pay the money to the ATO on your behalf, or
- pay using a combination of these options.

However, you must withdraw the full amount of your excess non-concessional contributions tax from your super, whether you use it to help you pay the tax or not.

Personal tax deductible contributions

If you are under age 75 you will be entitled to claim a tax deduction on personal contributions. If you claim a tax deduction for your super contributions, ESSSuper is required to deduct 15% tax from those contributions. For information about reportable employer superannuation contributions, refer to the *Contributing to super guide (AP.1)* available on our website at **esssuper.com.au/pds**

If you intend to claim a tax deduction for your personal contributions to the Accumulation Plan, you must complete the *Claiming or varying a tax deduction for personal super contributions form (ES156)* available from our website at **esssuper.com.au/forms**, and lodge the form with ESSSuper.

You must lodge your request by the earlier of:

- the date you lodge your tax return
- the end of the financial year after the contribution is made
- the date you withdraw your super from ESSSuper or start a pension or income stream
- the date you split contributions with your spouse.

ESSSuper must acknowledge receipt of your intent to claim a tax deduction in order for you to claim a tax deduction. ESSSuper can refuse to acknowledge your request in certain circumstances. You must also ensure that ESSSuper has acknowledged receipt of your request before you withdraw or transfer part, or all, of your benefit to another fund or commence an income stream. Otherwise you may not be able to claim a tax deduction for your contribution, or in the case of a partial withdrawal or transfer, you may only be able to claim a tax deduction for a proportion of your contribution.

Work Test exemption

From 1 July 2019, individuals aged 65-74 may be eligible to make voluntary contributions for a 12 month period without having to meet the Work Test.

To be eligible, you would need to meet the following criteria:

- Satisfied the Work Test in the financial year prior to the year you make a contribution,
- Have a Total Super Balance below $300,000 at the end of

the previous financial year, and

- Have not made contributions under this exemption measure previously.

Tax on transfers and rollovers between super funds

Generally, transfers to or from other super funds are not taxed. However transfers from some government funds may include an 'untaxed element', which may be subject to tax.

If you are transferring over an untaxed element from another fund (including ESSSuper's Beneficiary Account) to your Accumulation Plan account, ESSSuper will deduct 15% contributions tax from the untaxed element upon deposit into the Accumulation Plan. If the amount of the untaxed element is above $1,515,000*, the transferring fund must also withhold tax at 47% including Medicare levy of 2% on the amount above $1,515,000 at the time of the transfer.

* Untaxed plan cap amount current for the 2019/20 financial year.

Tax on investment earnings

Investment earnings are generally taxed at 15%, however the final rate may be less than 15% after tax deductions, offsets and credits are applied. Tax is deducted from investment earnings before net earning rates are declared and applied to your account.

Tax on withdrawals

Withdrawals may include two tax components:

- a tax free component, which is generally made up of any non-concessional contributions plus certain pre-July 2007 benefits, and
- a taxable component, which is generally made up of any concessional contributions (including employer SG and salary sacrifice contributions) and investment earnings.

The taxable component may contain two elements – a taxed element and an untaxed element. A lump sum payment generally only contains an untaxed element if the benefit is paid from a government fund (such as the ESSS Defined Benefit Fund). Lump sums paid from the Accumulation Plan will not contain an untaxed element.

When you withdraw money from your account, it is withdrawn proportionately from the tax free and taxable components of your benefit based on the value of these components at the date of your withdrawal.

Lump sum tax if you have provided your TFN

If you have provided ESSSuper with your TFN, no tax will be withheld from the tax free component of any lump sum payment. Tax may be withheld from the taxable component, depending on your age and the components of your withdrawal as shown in the table below.

Benefit type	Age of person at date of payment	Benefit component	Amount subject to tax	Tax rate (including Medicare levy of 2%)
Member benefits (e.g. withdrawals, retirement, resignation and retrenchment benefits)	Below preservation age[1]	Taxable (taxed element)	Whole amount	22%
	Preservation age[1] to age 60	Taxable (taxed element)	Amount up to $210,000[2]	Nil
			Amount above $210,000[2]	17%
	Age 60 or above	Taxable (taxed element)	Whole amount	Nil
Transfer and rollover super benefit between super funds	Any	Taxable (taxed element)	Whole amount	Nil
		Taxable (untaxed element)	Amount up to $1,515,000[3]	Nil[4]
			Amount above $1,515,000[3]	47%
Death benefit paid to tax dependant	Any	Whole benefit	None	Nil
Death benefit paid to non-tax dependant	Any	Taxable (taxed element)	Whole amount	17%
		Taxable (untaxed element)	Whole amount	32%
Death benefit paid to estate	ESSSuper pays the death benefit tax free to the estate initially and the legal personal representative must then determine whether the benefit is paid to a dependant or non-dependant and withhold tax accordingly (if applicable).			
Terminal illness benefit	Any	Whole benefit	None	Nil
Total and Permanent Disablement benefit	Total and Permanent Disablement benefits are taxed in the same way as 'Member benefits' (see above).			
Account balance less than $200[5]	Any	Whole benefit	None	Nil
Departing Australia superannuation payment	Any	Taxable (taxed element)	Whole amount	38%[6]

[1] Refer to the *Accessing your super guide (AP.6)* from our website at **esssuper.com.au/pds** for your preservation age.

[2] The 'low rate cap' is $210,000 for payments made in the 2019/20 financial year and is indexed annually. The low rate cap is the maximum amount of the taxable component that is given the lowest rate of tax and is a lifetime cap.

[3] The 'untaxed plan cap' is $1,515,000 for payments made in the 2019/20 financial year and is indexed annually. The untaxed plan cap is the maximum untaxed super benefit received as a lump sum from a super fund which will be subject to concessional tax rates and is a lifetime cap.

[4] The untaxed element up to the untaxed plan cap will be taxed at 15% by the receiving fund (if a taxed fund).

[5] Conditions apply.

[6] Rate shown does not include the Medicare levy of 2%.

Lump sum tax if you haven't provided your TFN

If ESSSuper doesn't have your TFN, we may be required to withhold tax at a higher rate from your withdrawal. If you're under age 60 at the date of withdrawal, ESSSuper must withhold 47% including Medicare levy of 2% for 2019/20 and later financial years from the taxable component of a lump sum payment (or 45% if you are a foreign resident). If you are aged 60 or older at the date of payment and the lump sum does not contain an untaxed element, tax will not be withheld.

Death benefit payments

Generally, if a death benefit is paid to a 'tax dependant' beneficiary, the benefit will be paid tax free. A tax dependant beneficiary includes:

- your legal spouse or de facto partner (including a person, whether of the same or opposite sex, with whom you are in a registered relationship under prescribed laws)
- your children under 18 years of age
- any person who was financially dependent on you at the time of death
- any person who had an interdependency relationship with you at the time of death.

Tax may be payable if the death benefit is paid to a non-tax dependant or to the estate (see table on page 6).

It is important to note that a child over 18 who is not financially dependant upon you at the date of death will not be a tax dependant.

Departing Australia superannuation payments (DASPs)

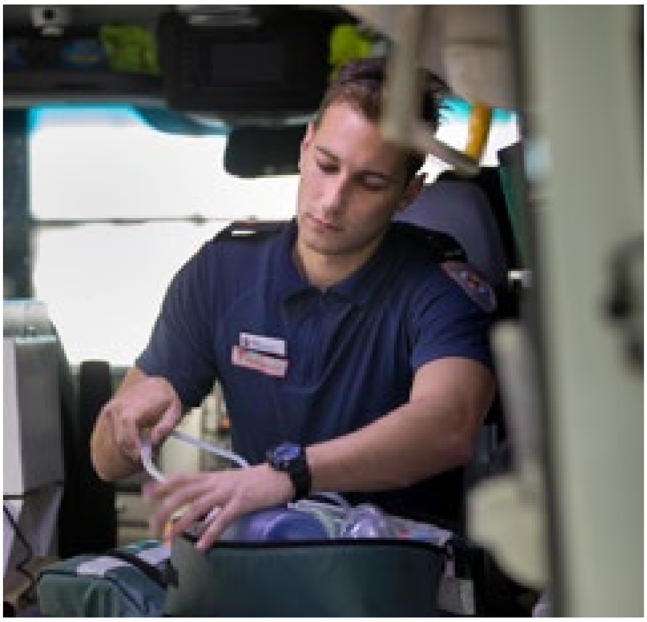
If you are working in Australia on a temporary resident's visa, you may be able to claim your super when you leave Australia. This type of payment is known as a departing Australia superannuation payment (DASP). The tax rates payable on a DASP are shown in the table on page 6.

Tax on Income Protection insurance benefit

As ESSSuper's Income Protection insurance cover is a benefit paid through a super fund, you can't claim a tax deduction for the premiums you pay.

If you are eligible to receive an Income Protection benefit, the maximum benefit payable is 85% of your pre-disablement income, with 75% paid to you and up to 10% paid as a super contribution to your Accumulation Plan account. The portion of the benefit paid to you is treated as taxable income and attracts pay as you go (PAYG) withholding tax, in the same way as other income and wages. PAYG withholding tax is deducted from the benefit before it is paid and is forwarded to the ATO. You will be asked to provide your TFN to the Insurer before any benefit is paid. If you do not provide your TFN, the Insurer will be required to deduct tax from your benefit at the top marginal rate of 47% including Medicare levy of 2%.

The portion of any benefit paid as a super contribution will be paid to your Accumulation Plan account and taxed as if it were an employer (concessional) contribution. For more information about how super is taxed, visit ato.gov.au or contact the ATO.



Statement of compliance

The Fund is an exempt public sector superannuation scheme under the Commonwealth's *Superannuation Industry (Supervision) Act 1993* (SIS). The SIS legislation deems exempt public sector superannuation schemes to be complying for the purposes of the Income Tax Assessment Act, and Superannuation Guarantee purposes.

The Victorian Government has agreed to the Commonwealth's retirement income principles in the 2014 Heads of Government Agreement (the Agreement) between the Commonwealth and Victorian Governments. The Agreement sets out the principles of the Commonwealth's retirement incomes policy that the Victorian Government is required to comply with to ensure consistency with national superannuation standards. These principles include, but are not limited to, preservation standards, contributions, security of accrued benefits, vesting, portability and consolidation, lost members and unclaimed money, insurance, member representation, trustee governance, investments, risk management framework, regular audit and actuarial reviews, data and e-commence standards and processes for the consideration of complaints.

The Victorian Government has agreed to conform with the principles of the Commonwealth's retirement income policy as reflected in the Agreement and from time to time in Commonwealth superannuation and taxation law. The Victorian Government is required to monitor this Agreement and publish a statement of its commitments in the ESSSuper Annual Report, including details of the processes that ESSSuper has in place to monitor compliance with the Agreement. On an annual basis, the Victorian Government is required to provide the Commonwealth Government with a copy of the ESSSuper Annual Report and confirm that there has been no legislative change in the governing rules of its exempt public sector superannuation schemes (which include the Fund) that would lead to a breach of the Agreement.

ESSSuper has a detailed program to assess compliance with internal policies and procedures, Victorian Acts of Parliament and Commonwealth superannuation and taxation laws. Results are reported regularly to the Governance, Risk and Compliance Committee and detailed each year in the Annual Report.

Need help with your super?

- visit **esssuper.com.au** for tips, tools and calculators
- book in for a free super seminar online at **esssuper.com.au/seminars**
- call our Member Service Centre on 1300 650 161
- call us to arrange a free individual consultation with a Member Education Consultant
- if you want personal financial advice tailored to your individual circumstances, we can arrange a referral to a licensed financial adviser that charges on a fee-for-service basis (commission free). ESSSuper has an arrangement with Link Advice Pty Ltd for Link Advice and its authorised representatives to provide members with financial advice under Link Advice's Australian Financial Services Licence (No. 258145). Appointments are located at ESSSuper's office.

ESSSuper Financial Advisers are authorised representatives of Link Advice Pty Ltd (Link Advice). Link Advice holds a current Australian Financial Services Licence No. 258145 and is responsible for the financial services provided to you by it or its authorised representatives.

ESSSuper has an arrangement with Link Advice Pty Ltd to provide financial advice to ESSSuper members. ESSSuper pays Link Advice a fee for this service. Neither the Board, nor the Victorian Government, guarantee or endorse any recommendations made by Link Advice or its authorised representatives, or are responsible for the advice and actions of Link Advice or its authorised representatives.

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