



## What do I need to know?

Before you can make sense of the taxation system as it applies to your benefits, there are a number of taxation terms that you should become familiar with. These include your Eligible Service Period (ESP) and your Superannuation Lump Sum Payment.

You will also need to know about your contributions, what a rollover involves, and what rates of tax are payable on lump sums

## Superannuation contributions

### Amounts you can contribute without paying additional tax

You can make two types of contributions. These are non-concessional and concessional contributions.

## Tax on Contributions

### What are my non-concessional contributions?

The following contributions are classed as 'non-concessional contributions' for taxation purposes.

#### 1. Member Contributions

As a DFRDB scheme Member, you must pay 5.5% of your superannuation salary each fortnight, unless you have reached 40 years of service.

#### 2. Additional personal contributions

Although you cannot make additional personal contributions into DFRDB, you are eligible to make additional personal contributions into the Military Superannuation and Benefits Scheme (MilitarySuper) or another eligible superannuation fund. An additional personal contribution is a type of ancillary contribution.

#### 3. Co-contributions

Government co-contributions are non-concessional contributions but will not be included in the non-concessional contributions cap.

### IMPORTANT NOTES:

The Board may not be able to accept your non-concessional contributions if you have not provided your Tax File Number (TFN).

MilitarySuper cannot accept your Ancillary Contributions if you have not provided your TFN.

### Caps on Non-Concessional Contributions

There is a cap on the amount of non-concessional contributions (after tax) you can make without incurring additional tax.

The non-concessional contributions cap across all your superannuation funds is:

- \$150 000 per year; or
- \$450 000 over three years for Members under 65. For example, \$300 000 in year 1. \$100 000 in year 2 and \$50 000 in year 3.

Your after-tax contributions up to the cap can be paid in tax-free.

Non-concessional contributions made above the cap will be taxed at the top marginal tax rate (plus Medicare levy).

If you are making a large contribution into superannuation or approaching your non-concessional contributions cap, you will also need to take into account that it is compulsory for you to continue to make Member Contributions at the rate of 5.5%.

If you contribute over the cap the Australian Taxation Office (ATO) will advise you of your options.

### What are my Concessional contributions?

Salary sacrifice contributions are classed as 'concessional contributions' for taxation purposes.

Salary sacrifice contributions

If you are a contributing Member of the DFRDB scheme you can make salary sacrifice contributions into MilitarySuper. They are taxed at 15% when entering the fund, unless you have made concessional contributions above the cap or you have not provided your TFN. A salary sacrifice contribution is a type of ancillary contribution.

If MilitarySuper does not have your TFN all concessional contributions will be taxed at the top marginal tax rate at the end of each financial year.



## Transfer Amounts

Amount transferred into MilitarySuper from other superannuation funds will not count towards the non-concessional or concessional contribution caps.

When you take your benefits from the DFRDB or ancillary benefits from MilitarySuper you may receive retirement pay and/or a lump sum.

A lump sum is called a 'superannuation lump sum payment'.

## Caps on Concessional Contributions

There is a cap on the amount of concessional contributions you can pay into your superannuation without incurring additional tax. The limit across all your superannuation funds is:

- maximum \$25 000 per year, or
- a transitional concessional contributions cap of \$50 000 (not indexed) applies during the period 2009-10 to 2011-12 for those aged 50 years or older. From 1 July 2012 the \$25 000 cap (indexed) will apply to all Members.

Concessional contributions above the caps will be taxed at the marginal tax rate (plus Medicare levy). Concessional contributions above the caps will be counted towards your non-concessional contributions cap.

If you contribute over the cap the ATO will advise you of your options.

## Tax on benefits

### Your Untaxed and Taxed Sources

The information below describes the untaxed and taxed sources that were referred to in the tables on pages 3 and 4.

#### 1. Untaxed Source

The DFRDB is an untaxed superannuation scheme as the funds are drawn from an untaxed source. An untaxed source is a source from which no tax has previously been deducted. For the DFRDB scheme, the untaxed source is the Government's Consolidated Revenue fund.

As a DFRDB Member, you are required to make fortnightly contributions (non-concessional contributions) from your after-tax salary. These fortnightly contributions are considered to be from an untaxed source because they are paid into Consolidated Revenue, which does not pay income tax. However, because these contributions come from your after-tax income, different tax rules apply to this part of your benefit.

The two parts to your benefit in the DFRDB scheme are called tax-free and taxable.

- The tax-free component consists of your compulsory fortnightly contributions from your after-tax salary
- The taxable component consists of the untaxed employer contributions which are paid to you from Consolidated Revenue on exit.

Your total benefit in the DFRDB scheme including the tax-free component is from an untaxed source.

### Productivity Benefit

Separate to your DFRDB benefit you have been accruing a productivity benefit (from 1 January 1988). This benefit is paid by the Department of Defence and is separate from your DFRDB benefit. It is also from an untaxed source.

### Associate Benefit

An associate's benefit is from an untaxed source.

#### 2. Taxed Source

A benefit is from a taxed source if tax has previously been paid on the contributions that created the benefit. Ancillary contributions paid into MilitarySuper are from a taxed source. These include:

- additional personal contributions
- Government co-contributions
- salary sacrifice contributions, and
- transfer Amounts

## Taxation of benefits tables

Table 1 shows the difference in taxation based on age

Under 55	55-59	Over 60
<p><b>From 1 July 2007, if you are aged under 55 at the time you claim your benefit from the DFRDB scheme (an untaxed source), you will be taxed as follows:</b></p> <p>Untaxed Source</p> <ul style="list-style-type: none"> <li>If you are entitled to retirement pay, it will be taxed at your marginal tax rate. Once you turn 60, a 10% tax offset will apply.</li> <li>If you take any part of your benefit as a lump sum, the taxable component will be taxed at 30% up to a threshold of \$1.205 million, and at the top marginal tax rate above this amount.</li> </ul> <p><b>From 1 July 2007, if you are aged under 55 at the time you claim an ancillary benefit from MilitarySuper, you will be taxed as follows:</b></p> <p>Taxed Source</p> <ul style="list-style-type: none"> <li>If you take any part of your benefit as a lump sum, you will pay no tax on the tax-free component. The taxable component will be taxed at 20%.</li> </ul>	<p><b>From 1 July 2007, if you are aged between 55 and 59 at the time you claim your benefit from the DFRDB scheme (an untaxed source), you will be taxed as follows:</b></p> <p>Untaxed Source</p> <ul style="list-style-type: none"> <li>If you are entitled to retirement pay, it will be taxed at your marginal tax rate. Once you turn 60, a 10% tax offset will apply.</li> <li>If you take any part of your benefit as a lump sum, the taxable component will be taxed at 15% up to a threshold of \$165 000, then 30% between this amount and \$1.205 million, and at the top marginal tax rate above this amount.</li> </ul> <p><b>From 1 July 2007, if you are aged between 55 and 59 at the time you claim an ancillary benefit from MilitarySuper, you will be taxed as follows:</b></p> <p>Taxed Source</p> <ul style="list-style-type: none"> <li>If you take any part of your benefit as a lump sum, you will pay no tax on the tax-free component. The taxable component will be tax-free up to a threshold of \$165 000 and taxed at 15% above this amount.</li> </ul>	<p><b>From 1 July 2007, if you are aged 60 and over at the time you claim your benefit from the DFRDB scheme (an untaxed source), you will be taxed as follows:</b></p> <p>Untaxed Source</p> <ul style="list-style-type: none"> <li>If you are entitled to retirement pay, it will be taxed at your marginal tax rate. However, you will now receive a 10% tax offset.</li> <li>If you take any part of your benefit as a lump sum, it will be taxed at 15% up to \$1.205 million and at the top marginal tax rate above this amount.</li> </ul> <p><b>From 1 July 2007, if you are aged 60 or over at the time you claim an ancillary benefit from MilitarySuper, you will be taxed as follows:</b></p> <p>Taxed Source</p> <ul style="list-style-type: none"> <li>If you take any part of your benefit as a lump sum, it will be tax-free.</li> </ul>

**Table 2 shows the percentage of tax payable on LUMP SUMS based on age and component.**

Table 2		Taxed Source		Untaxed Source	
		Tax-free	Taxable	Tax Free	Taxable
Under 55		0%	20%	0%	30%
					Top marginal tax rate above \$1.205 million threshold
55-59	Up to \$165,000	0%	0%	0%	15%
	Above \$165,000 threshold	0%	15%	0%	30%
Top marginal tax rate above \$1.205 million threshold					
60 and over		0%		0%	15%
					Top marginal tax rate above \$1.205 million threshold

**Please Note:** The Medicare levy is also applied when tax is deducted. The lump sum threshold of \$165,000 is calculated across your entire taxable benefit both taxed and untaxed. The lump sum threshold of \$1.205 million only applies to untaxed sources but is calculated across your entire taxable benefit, both taxed and untaxed.

**Table 3 shows the percentage of tax payable on RETIREMENT PAY based on age and component.**

Table 3		
	Tax-Free component	Taxable component
Under 55	0%	Your Marginal Tax Rate
55-59	0%	Your Marginal Tax Rate
60 and over	0%	Your Marginal Tax Rate less a 10% offset



## *What is my Superannuation Lump Sum Payment?*

Your Superannuation Lump Sum Payment is the lump sum payment of some or all of your benefit. You can elect to roll over your Superannuation Lump Sum Payment, and it will be treated differently for taxation purposes if you do so. Rollovers are discussed later.

From 1 July 2007, your Superannuation Lump Sum Payment will consist of two parts: a Tax free component and Taxable component. The Taxable component may have taxed and untaxed elements.

We need your correct Eligible Service Period (ESP) to work out these components.

NOTE – Please check on your Member Statement to see if we have your correct ESP recorded.

## *What is my eligible service period (ESP)?*

Your ESP is the period of service which is used to work out which components of your benefit should be taxed and the rates at which they should be taxed. Generally speaking, your ESP will be the length of your service from the date you joined the Defence Force to the date your benefit is paid. In some cases, if you have other periods of service to your credit before your current service, these periods will be added to your ESP.

## *Proportioning of partial benefit payments*

Under the tax changes if you access part of your benefit, the payment will include both tax-free and taxable components in the same proportions as exist in your total benefit.

This change has no effect on the DFRDB scheme and the current rules for applying your tax-free amount to your benefit (both commutations and retirement pay) remain unchanged.

However, if you are a DFRDB Member who has an ancillary benefit with MilitarySuper you may be affected. If you access part of your ancillary benefit, the payment will include both tax-free and taxable components in the same proportions as exist in your total ancillary benefit.

## *What is a rollover?*

A rollover is an option you have open to you if you receive a Superannuation Lump Sum Payment and you do not want to take any or all of the lump sum straight away. You can then elect to 'roll over' some or all of your money. You can also elect to roll over different proportions of your Superannuation Lump Sum Payment to different Superannuation funds. This is subject to the proportioning rules for ancillary benefits. Whichever way you do it, the action of rolling over your money means that you are voluntarily delaying access to it, and this, in turn, means that it is treated differently for taxation purposes.

You will have to make the rollover election at the same time as you apply for your benefit. Then, after your benefit has been processed, ComSuper will send your Rollover Benefits Statement to you, along with cheques for any rolled over amounts you have nominated. The cheques will be made out to the organisations you have nominated, and you will then have the responsibility of lodging them with the rollover fund. When you make a rollover election, ComSuper will not deduct any tax from the portion of your Superannuation Lump Sum Payment that you roll over. However, you should note that if another superannuation fund accepts your rolled over amount, it must immediately deduct 15 per cent tax from the untaxed element.

If you do not provide the Board with your TFN your retirement pay will be taxed at the top marginal tax rate (plus Medicare levy).

## *Withdrawal of benefits*

Contributing Members of the DFRDB scheme are eligible to make ancillary contributions into MilitarySuper. The tax rules that force a Member to claim their benefit at age 65 have been removed with the changes. However, MilitarySuper scheme rules do not permit benefits to remain preserved in the fund after reaching 65 years of age.



## Other considerations

### Tax File Numbers (TFN)

From 1 July 2007, if MilitarySuper does not have your TFN:

- we will not be able to accept your non-concessional contributions (Member and additional personal),
- your employer may choose not to pay productivity contributions, and
- you will be taxed at the top marginal tax rate at the end of the financial year on any concessional contributions (salary sacrifice) that are made.

## Terms to Know

### Ancillary contributions

Ancillary contributions include:

- additional personal contributions
- Government co-contributions
- salary sacrifice contributions
- spouse contributions, and
- transfer amounts.

### Associate

A spouse or former spouse of a DFRDB Member who gains a separate superannuation interest in the fund when a Family Law court order or superannuation agreement is put into effect.

### Co-contribution

Additional contributions from the Australian Government available to eligible individuals with an assessable income under \$61 920 per annum. Further information is available at <http://www.ato.gov.au/super> (Until 30 June 2012)

### Concessional contributions

Normally contributions that your employer has made on your behalf (for which they can claim a deduction) and include salary sacrifice contributions.

### Non-concessional contributions

Contributions you have made from your after-tax income for which you have not claimed a tax deduction. This includes your Member Contributions and any additional personal contributions. It does not include pre-July 1983 contributions.

### Productivity Benefit

Separate to your DFRDB benefit you have been accruing a productivity benefit (from 1 January 1988). This benefit is paid by the Department of Defence and is separate from your DFRDB benefit. It is also from an untaxed source.

### Taxable (Untaxed source)

You may have to pay tax on the taxable part when you claim your benefit. The taxable part of your benefit from an untaxed source is also made up of different components. The most common of these components is the post-June 1983 untaxed element.

### Taxed sources

A source where tax has previously been paid, including:

- additional personal contributions,
- Government co-contributions,
- salary sacrifice contributions,
- transfer amounts, and
- Any earnings on these contributions.

Your benefit from a taxed source is further divided into two parts: tax-free and taxable.

### Tax-free (Untaxed source)

You pay no tax on the tax-free part when you claim your benefit. The tax-free part of your benefit from an untaxed source is made up of several components, including the pre-July 1983 component and non-concessional contributions.

### Tax offset

A reduction in tax liability. Often a tax offset is described as a percentage (for example, an offset of 10% to your retirement pay). It is different from a tax deduction, which may reduce your marginal tax rate. If you receive a tax offset we will calculate it for you.



## Untaxed sources

A source where no tax has previously been paid, including:

- Compulsory 5.5% Member Contributions
- Untaxed employer contributions paid from Consolidated Revenue
- Productivity Benefit

Your benefit from an untaxed source is further divided into two parts: tax-free and taxable.

## Need more information?

If you need further information about any aspect of your DFRDB membership, contact our administrator, ComSuper, directly:

Unit 4, Cameron Offices  
Chandler Street  
Belconnen ACT 2617

PO Box 22  
Belconnen ACT 2616

Fax: (02) 6272 9616

TTY: (02) 6272 9827

Email: [members@dfldb.gov.au](mailto:members@dfldb.gov.au)

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- About to leave the ADF?
- Dependants' Benefits
- Invalidation Benefits
- Preserved Benefits
- Retirement Benefits
- Taxation of Benefits
- Taxation Concessions
- Superannuation Contributions Surcharge

The DFRDB Book, about your scheme, is also available.

Inquiry line: 1300 001 677