

Taxation Offsets for Pensions



Australian Government
Defence Force Retirement &
Death Benefits Scheme

DF05—July 2011

Who should read this fact sheet?

This fact sheet provides general information about tax offsets available to pensioners who are receiving a Defence Force Retirement and Death Benefits (DFRDB) pension.

What is in this fact sheet?

- What is a tax offset?
- What components make up my pension?
- What are marginal tax rates?
- How is my pension taxed?
- What tax offsets are available?
- Where can I get more information?

What is a tax offset?

A tax offset is a reduction in the amount of tax that you pay. Often a tax offset is described as a percentage (for example a tax offset of 10% to a pension). It is different from a tax deduction, which may reduce your assessable income.

What components make up my pension?

Your pension can be comprised of three components. These are dependent on age and the source of the contributions that are made into your superannuation account before conversion into a pension. These are:

Tax-free component

The tax-free component can be made up of several contribution types, including pre-July 83 contributions

and any non-concessional (personal) contributions that you paid to the scheme on a fortnightly basis, and were then applied to your pension. You pay no tax on the tax-free component of your pension.

Taxed component

You may have a taxed component of your pension if you retired prior to 1994. At age 60, your taxed component will automatically become tax free. This is called the taxed element on your annual payment summary.

Untaxed component

This component consists of your employer contributions and is called untaxed as it is paid from the Australian Government's consolidated revenue fund. This component of your pension is taxed as per the ATO tax schedules less the 10% tax offset after the age of 60. This is called the untaxed element on your annual payment summary.

What are marginal tax rates?

Marginal tax rate is the term used to describe the method of taxation withholding. Withholding rates are calculated on the basis that, if your pay and circumstances remain consistent throughout the year, you may be entitled to a small refund when you complete your tax return. This system is called pay as you go (PAYG) withholding. For further information, see www.ato.gov.au.

DFRDB Customer Service Centre

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How is my pension taxed?

The table below outlines the method of withholding.

Age	Tax-free component	Taxable component
Under 55	You pay 0% tax	Your marginal tax rate
55-59	You pay 0% tax	Your marginal tax rate
60 and over	You pay 0% tax	Your marginal tax rate less a 10% offset

What tax concessions are available?

- A 10% tax offset on the untaxed component of a pension paid to pensioners aged 60 and over; and
- A tax-free amount.

10% tax offset

After the age of 60 the untaxed component of your pension will be taxed at your marginal tax rate, less the 10% tax offset every fortnight. The untaxed component is your total pension less any Tax free amount.

If eligible, this tax offset will automatically be applied to your pension fortnightly. If you would like to claim this offset as part of your annual tax return (instead of in your fortnightly pension) you will need to tell us in writing.

If you are receiving a reversionary pension and your late spouse was over 60 you are eligible for the 10% tax offset on the untaxed component of your pension **regardless of your age.**

Tax-free amount

You do not pay tax on the tax-free component of your pension at any time. At age 60, the taxed component of your pension also becomes tax free. The combined tax-free and taxed components are your new tax-free amount.

For more information about taxation matters, please contact the Australian Taxation Office on 13 10 20 or visit www.ato.gov.au.

Where can I get more information?

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