



# How the 1 July 2007 changes affect you in the CSS (deferred)

## Who should read this?

All CSS deferred benefit members.

If you plan to make any changes to your super arrangements after reading this fact sheet, we recommend that you seek financial advice before making any decisions.

## What is in this fact sheet?

- > What you should know up front
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## What you should know up front

It is important that you read the disclaimer at the end of this fact sheet. Before making any decisions, please read the **CSS product disclosure statement** and consider seeking advice from a licensed professional such as a financial planner, accountant or solicitor.

## What are the changes?

New super tax legislation that affects all super funds and their members comes into effect from 1 July 2007.

The changes are different based on whether tax has or has not been paid on contributions.

The CSS is a hybrid scheme-part accumulation, part defined benefit. Your CSS benefit includes both taxed and untaxed components as follows:

1. Member component – this is your own contributions paid whilst you were a contributing member, plus Fund earnings. We call this a ‘taxed’ component because it is money that was paid from your after-tax salary directly into the CSS to be invested.
2. Productivity component – this is your employer’s productivity contributions since 1 July 1990 (less 15% contributions tax) whilst you were a contributing member, plus Fund earnings. We call this a ‘taxed’ component because it includes money that was paid directly into the CSS to be invested. Any productivity contributions paid before 1 July 1990 are treated as an ‘untaxed component’.
3. Employer-financed component – determined only when you claim your benefit, this amount is generally paid as a CPI-indexed pension and is calculated based on your basic contributions in the CSS at the date you claim your benefit. We call this an ‘untaxed component’ because it is paid from the Consolidated Revenue Fund (CRF), not the CSS. For tax purposes, it is treated as coming from an ‘untaxed source’.

### Benefits from a taxed source

The main changes that affect CSS members include:

- > the abolition of tax paid on lump sums and non-indexed pensions, for those **aged 60 or over** (at the time of payment), and
- > conversion of the pre-July 1983 component (as at 30 June 2007) to a tax-free component.

### Benefits from an untaxed source

The main changes for those claiming a benefit at **age 60 or over** include:

- > a 10% tax offset on pensions, and
- > a threshold for lump sum benefits over \$1.1 million.

These changes are explained in more detail in this fact sheet.

## How do the changes affect your benefit?

Table 1 shows how your benefit will be taxed if you take a pension and/or lump sum from the CSS.

Table 1 - Tax on benefits by age from 1 July 2009		
Under 55 (please note that you can only access your CSS deferred benefit under age 55 in very limited circumstances. For more information, see the <b>preservation of benefits fact sheet</b> at <a href="http://www.css.gov.au">www.css.gov.au</a> )	Between 55 and 59 (and have reached preservation age)	60 and over
<p><b>Benefits from a taxed source</b></p> <ul style="list-style-type: none"> <li>&gt; If you are eligible to take part of your benefit as a lump sum, the taxable component will be taxed at 21.5%. Your lump sum may include a tax-free component.</li> <li>&gt; If you are eligible to purchase a non-indexed pension with your member contributions and post-June 1990 productivity, the taxable component will be taxed at your marginal tax rate. Your pension may also include a tax-free component.</li> </ul> <p><b>Benefits from an untaxed source</b></p> <ul style="list-style-type: none"> <li>&gt; If you are eligible to take part of your benefit as a lump sum, the taxable component will be taxed at 31.5% up to a threshold of \$1.1 million and at the top marginal tax rate above this amount. Your lump sum may include a tax-free component.</li> <li>&gt; If you are eligible to take a CPI-indexed pension, the taxable component will be taxed at your marginal tax rate.</li> </ul>	<p><b>Benefits from a taxed source</b></p> <ul style="list-style-type: none"> <li>&gt; If you take any part of your benefit as a lump sum, the taxable component will be tax-free up to a threshold of \$150,000 and taxed at 16.5% above this amount. Your lump sum may also include a tax-free component.</li> <li>&gt; If you purchase a non-indexed pension with your member contributions and post-June 1990 productivity, the taxable component will be taxed at your marginal tax rate less a 15% tax offset. Your pension may include a tax-free component.</li> </ul> <p><b>Benefits from an untaxed source</b></p> <ul style="list-style-type: none"> <li>&gt; If you take any part of your benefit as a lump sum, the taxable component will be taxed at 16.5% up to a threshold of \$150,000, then 31.5% up to \$1.1 million and at the top marginal tax rate above this amount. Your lump sum may also include a tax-free component.</li> <li>&gt; The taxable component of your CPI-indexed pension and any non-indexed pension purchased with pre-July 1990 productivity, will be taxed at your marginal tax rate.</li> </ul>	<p><b>Benefits from a taxed source</b></p> <ul style="list-style-type: none"> <li>&gt; If you withdraw any part of your benefit as a lump sum, the component from a taxed source will be tax-free.</li> <li>&gt; If you purchase a non-indexed pension with your member contributions and post-June 1990 productivity, the component from a taxed source will be tax-free.</li> </ul> <p><b>Benefits from an untaxed source</b></p> <ul style="list-style-type: none"> <li>&gt; If you take any part of your benefit as a lump sum, the taxable component will be taxed at 16.5% up to a threshold of \$1.1 million and at the top marginal tax rate above this amount. Your lump sum may include a tax-free component.</li> <li>&gt; The taxable component of your CPI-indexed pension and any non-indexed pension purchased with pre-July 1990 productivity, will be taxed at your marginal tax rate, less a 10% tax offset.</li> </ul>

### Tax offset example

The following example shows how the tax offset is calculated.

If the untaxed component of your fortnightly pension is \$1000, the offset amount is 10% of \$1000 which is \$100.

If your marginal tax rate is 30%, you would pay \$300 tax per fortnight before the offset.

You then deduct the offset amount from the amount of tax applicable based on your marginal tax rate i.e. \$300 - \$100 = \$200.

**Tax liability for that fortnight would now be \$200.**

**Please note:** The Medicare levy is also applied where tax is deducted.

Table 2 shows the names and tax rates of LUMP SUM components pre-1 July 2007 and names of the components post-1 July 2007.

Table 2 – Tax rates of the lump sum components		
Pre-1 July 2007 Component	Pre-1 July 2007 tax rate	Post-1 July 2007 Component
Pre-July 1983	5% at your marginal tax rate	Tax-free*
Concessional	5% at your marginal tax rate	
Undeducted contributions	Tax-free	
Post-June 1994 invalidity		
Capital gains tax		
Non-qualifying	Your marginal tax rate	Taxable*
Post-June 1983 Taxed	20% 0% up to \$135,590 threshold 15% above \$135,590 threshold	
> Under age 55 > Age 55 and over		
Post June 1983 Untaxed	30% 15% up to \$135,590 threshold 30% above \$135,590 threshold	
> Under age 55 > Age 55 or more		
Excessive	Up to 47%	ABOLISHED

\* For tax payable on these new components refer to Tables 3 and 4.

Table 3 shows the percentage of tax payable on LUMP SUMS based on age and component.

Table 3–Tax treatment of lump sums					
		Percentage of tax payable on a Taxed Source		Percentage of tax payable on an Untaxed Source	
		Tax-free component	Taxable component	Tax-free component	Taxable component
Under 55 (and have not reached preservation age)		0%	21.5%	0%	31.5%
					Top Marginal Tax Rate above \$1.1 million threshold
55-59 (and reached preservation age)	Up to \$150,000 threshold	0%	0%	0%	16.5%
	Above \$150,000 threshold	0%	16.5%	0%	31.5%
60 and over		0%		0%	

**Please note:** The Medicare levy is also applied where tax is deducted.  
The \$150,000 threshold is calculated across your entire taxable benefit.  
The \$1.1 million threshold is applicable to the untaxed component of your benefit.

Table 4 shows the percentage of tax payable on PENSIONS based on age and component.

Table 4–Tax treatment of pensions					
		Percentage of tax payable on a Taxed Source		Percentage of tax payable on an Untaxed Source	
		Tax-free component	Taxable component	Tax-Free component	Taxable component
Under 55		0%	Your Marginal Tax Rate	There is no tax-free component for pensions from an untaxed source	Your Marginal Tax Rate
55-59		0%	Your Marginal Tax Rate less a 15% tax offset	There is no tax-free component for pensions from an untaxed source	Your Marginal Tax Rate
60 and over		0%		There is no tax-free component for pensions from an untaxed source	Your Marginal Tax Rate less a 10% tax offset

**Please note:** The Medicare levy is also applied where tax is deducted.  
The tax treatment on your pension changes according to your current age.

## Is there anything else I should consider?

- > Reasonable Benefit Limits (RBLs) have been abolished.
- > The Senior Australian tax offset may apply to you. For further information visit [www.ato.gov.au](http://www.ato.gov.au)
- > The age pension assets test taper rate has changed. For further information visit [www.centrelink.gov.au](http://www.centrelink.gov.au)
- > Any part of your benefit which is taxed will also be subject to the Medicare levy.
- > You should seek financial advice before claiming your benefit.
- > This fact sheet only covers changes that affect your CSS deferred benefit. It does not cover contributions, as you no longer contribute to the CSS. However, you may have other super funds that you contribute to and we recommend you speak to them to find out how the changes may affect your contributions.

## Where can you get more information?

<b>EMAIL</b>	<a href="mailto:members@css.gov.au">members@css.gov.au</a>
<b>PHONE</b>	1300 000 277
<b>FAX</b>	02 6272 9612
<b>MAIL</b>	CSS PO Box 22 Belconnen ACT 2616
<b>WEB</b>	<a href="http://www.css.gov.au">www.css.gov.au</a>

## Glossary

### Concessional contributions

Previously known as deductible contributions. These are contributions made from your before-tax income, whilst you were a contributing member.

### CPI-indexed pension

A pension which is indexed half yearly in line with the consumer price index.

### Non-concessional contributions

Previously known as undeducted contributions. These are personal contributions made after June 1983 from your after-tax salary whilst you were a contributing member.

### Non-indexed pension

Pension that can be purchased with your member and/or productivity components. This pension is not indexed to the consumer price index (see CPI-indexed pension). From age 60 this will be tax-free.

### Post-June 1990 productivity

Fortnightly contributions paid by your employer after June 1990. This is payable from a taxed source.

### Post-June 1994 Invalidation component

Paid as a result of total and permanent incapacity and in consequence of termination of employment.

### Pre-July 1983 component

The amount of your super which relates to eligible service before 1 July 1983.

### Pre-July 1990 productivity

Productivity contributions paid by your employer for the period prior to July 1990. This is payable from an untaxed source.

### Preservation age

The minimum age at which you can take a cash lump sum without any restriction (see table below).

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
After 30 June 1964	60

### Reasonable Benefit Limits (RBLs)

Before 1 July 2007 the maximum super benefit you were able to receive from all sources at a concessional tax rate. These limits have been removed.

### Supplementary contributions

Personal contributions in excess of the compulsory 5%.

### Taxable component

This includes concessional contributions made since 1 July 1983. It can contain taxed and untaxed amounts.

### Taxed component

Consists of your post-June 1990 productivity, member contributions, Super Co-contributions and any transfers from other super funds. This component was previously referred to as 'funded'.

### Tax-free component

This may include contributions made before 1 July 1983, non-concessional contributions made since 1 July 1983 and post-June 1994 invalidity amounts.

### Tax offset

A reduction in tax liability. Often a tax offset is described as a percentage, for example, an offset of 10% to a pension. It is different from a tax deduction, which reduces your taxable income.

### Top Marginal Tax Rate (MTR)

The highest income tax rate. For 2009/10 the top MTR is 45%.

### Untaxed component

Consists of your employer component and any pre-July 1990 productivity contributions. This component was previously referred to as 'unfunded'.

#### Warning - This Document Contains General Advice or Information Only

Any advice in this document has been prepared without taking account of your personal objectives, financial situation or needs. Because of this, you should, before acting on any advice in this document, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. You may wish to consult a licensed financial planner to do this.

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