

Understanding how the concessional contribution cap applies to existing (as at 12 May 2009) DBD members

Warning:

Please note the changes to superannuation announced in the 2009/10 Federal Budget are yet to be enacted into law. The information provided in this fact sheet reflects our current understanding of the proposed changes as at 15 June 2009. Once the legislation is enacted more details will become available and the following information may change.

Background

On 1 July 2009, the concessional contributions cap for the 2009/10 financial year reduces to \$25,000 for those members under the age of 50, and \$50,000 for members aged 50 or above.

Concessional contributions caps and tax

The concessional contributions cap limits the amount of employer and salary sacrifice contributions that can be made to a member's superannuation account each financial year before hefty taxes apply. The first \$25,000 (for those under age 50) or \$50,000 (for those age 50 or above) of concessional contributions made into your super each financial year (in total across all super the funds you have) is taxed at a concessional rate of 15%.

Concessional (before-tax) contributions include:

- any notional contributions to the defined benefit component (see section overleaf)
- any member contributions that are made under a salary sacrifice arrangement
- any additional contributions made by an employer for an employee, including the 3% additional employer contribution made to your accumulation component
- any personal contributions that are claimed as a tax deduction (where the person is eligible to claim), and
- the taxable component of a directed termination payment in excess of \$1 million.

Please note if you split your contributions with your spouse, the full amount of the original contributions still counts towards your concessional contributions cap.

Any amounts over your concessional contribution cap will be taxed an additional 31.5% (including the Medicare levy) – a tax of 46.5% in total. The excess contributions can remain in your account, but, once the Australian Taxation Office has issued an assessment notice, you must pay any additional tax due. The amount of this additional tax may be withdrawn from any accumulation super balance you have. Alternatively, it may be paid for from your income or savings outside of super or from a combination of these options.

The excess contributions are also counted towards your non-concessional cap where they might incur a further 46.5% tax (including the Medicare levy) if your non-concessional (after-tax) contribution cap is exceeded.

The revised caps could have a significant impact on your superannuation and retirement savings so its important to understand both the implications of your cap and what you can do to minimise its impact on you.

Please note all salary figures are quoted in this fact sheet as being the level at which the concessional contribution cap thresholds will be reached and assume that no additional voluntary before-tax contributions are being made.

Notional Taxed Contributions and how they apply

For Defined Benefit Division (DBD) members, rather than using the actual amount of employer and before-tax member contributions made to the DBD during a given financial year to calculate whether the concessional contribution cap has been reached, Notional Taxed Contribution (NTC) rates are used.

In general terms, the approach used to calculate the NTC amount is of considerable benefit to DBD members. This is because the calculated NTC amount counted against the concessional contribution cap is generally lower than the actual level of employer and before-tax member contributions that are made into the DBD on your behalf. Your defined benefit entitlements are unaffected however.

It does mean that the salary levels at which the concessional contributions cap limits are reached are higher for DBD members.

The extent of the benefit, however, varies between different sub-groups of DBD members, owing to the way the government has constructed the NTC formula. To see your personal Notional Taxed Contribution amount simply log into MemberOnline (the secure part of our website) and visit the Notional Taxed Contribution summary area under the My resources tab.

It is also important to note that NTCs apply only to the concessional contributions made directly into your defined benefit component – that is, the combination of employer contributions and any standard member contributions that are made under a salary sacrifice arrangement.


For members who were in UniSuper's DBD on 12 May 2009, further special arrangements apply when determining the NTC amount for their defined benefit component.

Our understanding of the special arrangements is that if you were a DBD member as at 12 May 2009, should your NTC amount exceed your relevant concessional contribution cap (i.e. \$25,000 for those under age 50 and \$50,000 for those at or above age 50), simply because the standard employer and member contributions made to the DBD push you above this level - then your NTC amount is deemed to be at your cap and no additional tax is payable on the concessional contributions made into your defined benefit component.

This special arrangement does not extend to any before-tax contributions made to your accumulation component however. This means that the 3% additional employer contribution that applies to most DBD members and/or any additional voluntary contributions being made via salary sacrifice are counted towards your concessional contribution cap, outside of the NTC formula. These amounts are added to your NTCs to determine the total amount of concessional contributions made overall. If your NTC amount is close to or over your concessional contribution cap, any additional contributions to your accumulation component that are over the cap will be liable for the 31.5% excess contribution tax.

Example

Assume Jill, a 40-year old *became a DBD member before 12 May 2009*, and remains in the Fund beyond 30 June 2010. Jill has an annual superannuable salary of \$170,000 on 1 July 2009, and elects to salary sacrifice the 7% standard member contribution (8.25% before-tax). Although her actual before-tax contributions to the defined benefit component equal \$37,825 the following calculation would apply for the 2009/10 financial year:

Notional Taxed Contributions considered to have been paid to Jill's DB component	$16.8\% \times \$170,000$	=	\$28,560
			
Special arrangement resets Notional Taxed Contribution level to		=	\$25,000
Before-tax employer contributions to accumulation component	$3\% \times \$170,000$	=	\$5,100
Total before-tax contributions counted towards 2009/10 cap		=	\$30,100
2009/10 concessional (before-tax) contribution threshold		=	\$(25,000)
Excess contributions to which an additional 31.5% tax will apply		=	\$5,100

As you can see, although Jill has an NTC amount equivalent to \$28,560, the special arrangement considers this amount to be at the \$25,000 concessional contribution cap. This means that no excess contribution tax is payable on any of the concessional contributions made into her defined benefit component, including the portion above \$25,000.

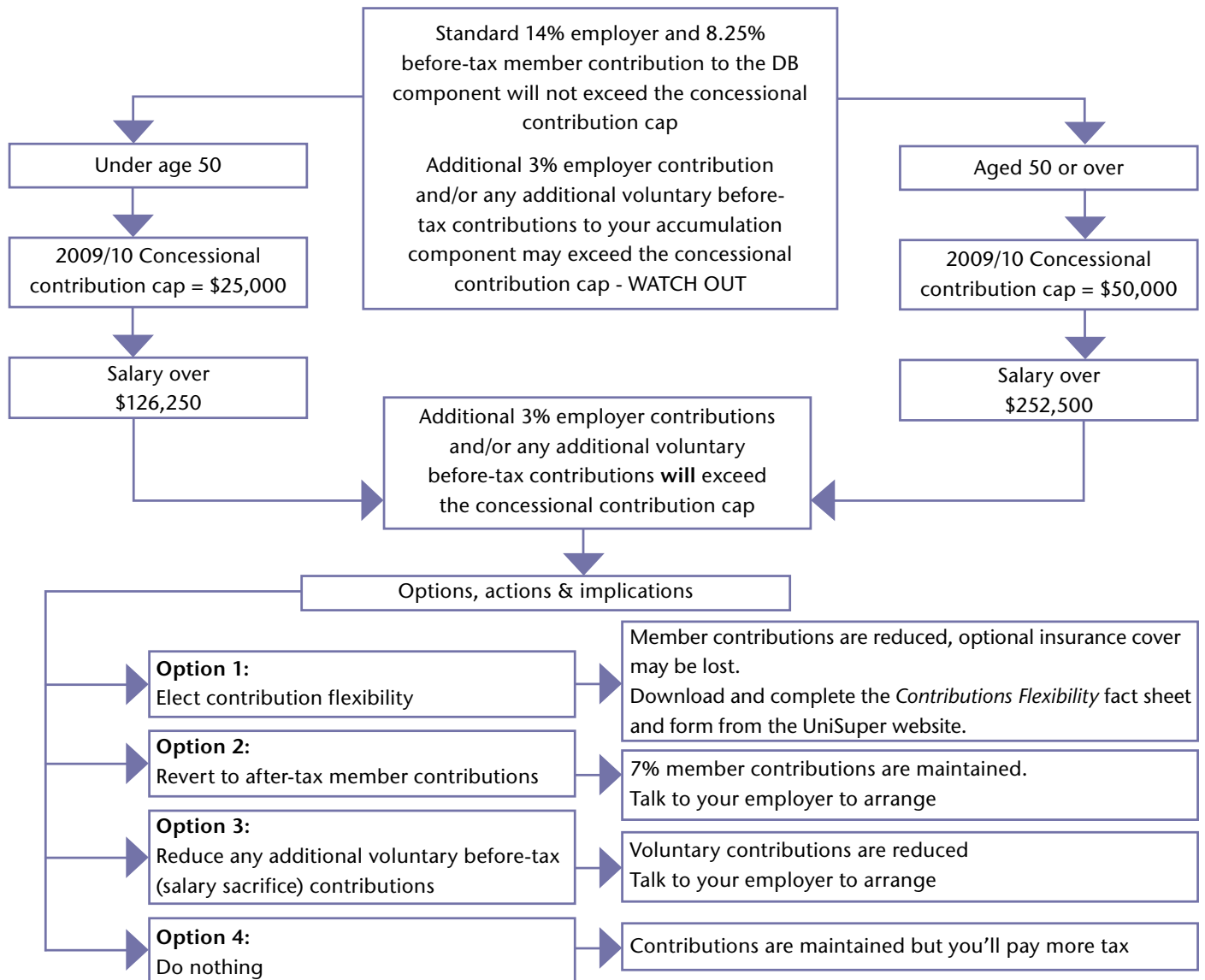
It is important to remember, however, that any additional concessional contributions made into Jill's accumulation component (eg. the 3% additional employer contribution and/or any voluntary salary sacrifice contributions) are not covered by this special arrangement and will still be subject to additional tax.

So using the above example, this would mean that whilst the extra \$3,560 concessional contribution made to Jill's defined benefit component would be exempt, she would still be liable to pay an extra 31.5% tax on the \$5,100 (3% of \$170,000) concessional contribution made into her accumulation component.

*16.8% is the most common NTC applicable to UniSuper members, to see a list of the applicable rates see the fact sheet *Notional Contribution rates for DBD members* available from our website.

To see your personal Notional Taxed Contribution amount simply log into MemberOnline (the secure part of our website) and visit the Notional Taxed Contribution summary area under the My resources tab.

There are a number of alternatives if you are affected by the cap.



Your options explained

Option 1: Reduce your member contribution using contribution flexibility

You could use the contribution flexibility option to reduce your standard 7% member contribution to the one of the following levels. This will effectively lower your NTC new entrant rate to the levels shown in the table and as the 3% additional employer contribution is now directed to your defined benefit component no additional tax will be payable as it will be covered by the special arrangement.


Before deciding to reduce your standard member contributions, UniSuper recommends that you do a thorough assessment of your retirement income goal and the savings that will be needed to fund it, as well as your personal savings habits, financial situation and insurance needs. If you reduce your standard member contributions you may also no longer be eligible to purchase optional insurance cover.

Before-tax contribution level	NTC rate	Impact on your benefits
8.25% (standard member before-tax contribution)	16.8%	Full defined benefit entitlements are maintained and the 3% additional employer contribution continues to go into your accumulation component.
5.25%	16.8%	Full defined benefit entitlements are maintained, the 3% employer contribution is redirected to your defined benefit component and optional insurance cover may no longer be available.
4.7%	15.6%	Defined benefit entitlements are scaled back in proportion to the reduction in your member contributions, the 3% additional employer contribution no longer goes into your accumulation component and optional insurance cover will in most cases no longer be available.
3.5%	14.4%	
2.4%	14.4%	
1.2%	13.2%	
0%	12%	

Please note, if you reduce your contributions there will be a reduction in your ultimate retirement savings

Example: Contribution flexibility undertaken

Assume Jill reduces her before-tax member contribution to 5.25% p.a (see table above). In this scenario, the 3% additional employer contribution that would otherwise go towards Jill's accumulation component is re-directed to her defined benefit component. As full defined benefit entitlements are maintained at this contribution level, her NTC new entrant rate remains at 16.8%. This means that although the actual before-tax contributions to Jill's defined benefit component remain at \$37,825 the following calculation would apply for the 2009/10 financial year:

Notional Taxed Contributions considered to have been paid to DB component		$16.8\% \times \$170,000 =$	<u>\$28,560</u>
Special arrangement resets Notional Taxed Contribution level to		$=$	\$25,000
Before-tax employer contributions to accumulation component		$=$	\$0
Total before-tax contributions counted towards 2009/10 cap		$=$	<u>\$25,000</u>
2009/10 concessional (before-tax) contribution threshold		$=$	<u>\$(25,000)</u>
Excess contributions to which an additional 31.5% tax will apply		$=$	<u>\$0</u>

Option 2: Switch to after-tax contributions

You may elect to make your member contributions on an after-tax basis rather than on a before-tax (salary sacrifice) basis. If you were to do this, your 2009/10 salary could be up to \$219,300 for a member aged under 50 (\$438,600 for those aged 50 or above) before the concessional contribution cap is reached.

This change can also be made without impacting your future retirement savings as the standard 7% member contributions are still maintained.

There are limits on the amount you can contribute on an after-tax basis though. You are limited to \$150,000 of after-tax (non-concessional) contributions each financial year. If you are under 65 you will be able to average this over a three-year period.

For example, you can contribute up to \$450,000 in a single year. After that you can't make any further contributions for the following two financial years unless you are prepared to pay the tax penalty (46.5% including Medicare levy) for exceeding the cap.

Option 3: Reduce your voluntary before-tax contributions.

If you are making additional voluntary contributions on a before-tax basis, you may wish to reduce the level of these contributions to ensure that you remain below the cap. Alternatively, you could switch to paying these contributions on an after-tax basis. Talk to your payroll or superannuation officer to arrange this.

Summary

If you are concerned about how the reduced concessional contribution cap may affect you, please call UniSuper or seek financial advice from a licensed financial adviser before making any decisions in relation to your super.



Find out more www.unisuper.com.au enquiry@unisuper.com.au 1800 331 685

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