Member Booklet Supplement

Tax and super

1 October 2018

The information in this document forms part of the First State Super **Member Booklets** (Product Disclosure Statements) for:

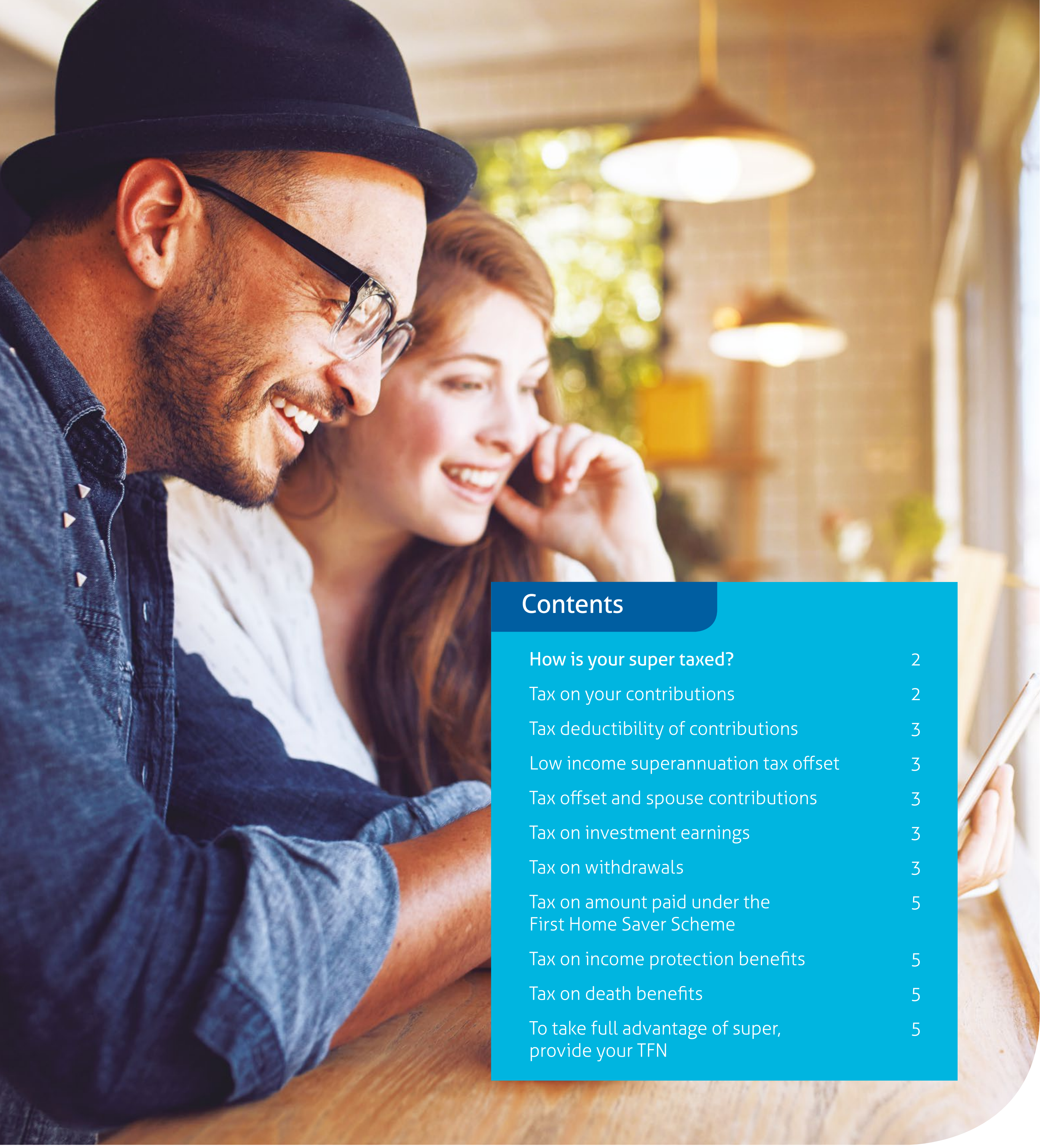
- Employer Sponsored members dated 1 October 2018
- Police Blue Ribbon Super members dated 1 October 2018
- Ambulance Officers' Super members dated 1 October 2018
- Personal members dated 1 October 2018

Prepared and issued by FSS Trustee Corporation
ABN 11 118 202 672, AFSL 293340
Level 21, 83 Clarence Street, Sydney NSW 2000
as trustee of the First State Superannuation Scheme
ABN 53 226 460 365

Unique Superannuation Identifier (USI) 53 226 460 365 001

MySuper Authorisation Number 53 226 460 365 073

Feel future ready



Contents

Disclaimer

This document has been prepared by FSS Trustee Corporation (referred to in this document as the 'trustee', 'we', 'us' or 'our'), the trustee of the First State Superannuation Scheme (referred to in this document as 'First State Super' or 'the fund'). This document contains general information only. It does not take into account your specific objectives, financial situation or needs. You should consider the information having regard to your personal circumstances. It is recommended that you consult a financial adviser if you require financial advice that takes into account your personal circumstances.

The information contained in this *Member Booklet Supplement* was accurate at the time of its preparation. However, some of the information can change from time to time and the trustee can change matters which are the subject of representations made in the *Member Booklet* and *Member Booklet Supplements*. If the change is not materially adverse, the updated information will be available on our website at **firststatesuper.com.au/pdsupdates**. A paper copy of this *Member Booklet Supplement* and any update will be available free of charge by contacting us on 1300 650 873.

We may change any matter about First State Super without member consent, but in the case of an increase in fees and charges we will notify members at least 30 days before the change occurs. This offer is only made to persons receiving this *Member Booklet Supplement* and the applicable *Member Booklet* (electronically or otherwise) in Australia.

Your super is a tax effective way to save

Super is one of the most tax-effective ways to save for your retirement. This is because the investment earnings on your super are generally taxed at a maximum of 15%.

For most people, this tax concession makes super a very attractive way to save for retirement.

Other tax benefits include:

- you can reduce your income tax by having your employer pay your before-tax salary into super (called salary sacrificing) or by making personal contributions which you claim as a tax deduction
- no tax is payable on super benefits paid to you when you access your money after you reach age 60
- some of your super may be tax free if you access it before you reach age 60.

How is your super taxed?

In general, tax is payable on your super at a maximum rate of:

- 15% on contributions to the fund from an untaxed source
- 15% on investment earnings within the fund.

Depending on when you withdraw your super you may also pay tax when your benefit is paid out.

Use the calculators on our website to see if salary sacrificing into super or making personal contributions you claim as a tax deduction can reduce your tax and at the same time, give you a more comfortable retirement.

Tax on your contributions

We deduct a provision for 15%[1] tax from all before-tax contributions made to your account, and use this to pay the tax. Additional tax may also be payable if your combined income and contributions are greater than $250,000 in the 2018-19 financial year[2]. In some cases, other tax will be payable by you.

There are limits (also referred to as caps) on how much you can contribute to your super each financial year without incurring additional tax. The caps apply to contributions made to all super accounts you may have, not just your super with us.

Your voluntary contributions within the caps may be withdrawn under the First Home Super Saver Scheme and tax may apply. For information about the First Home Super Saver Scheme, read the *Member Booklet Supplement: How super works*, available on our website or by contacting us.

The tax payable on contributions is shown below.

Before-tax (concessional) contributions[2]
15%[1] – for all before-tax contributions
Your marginal tax rate, plus an interest charge – for before-tax contributions in excess of the annual cap[3]
Before-tax contributions in excess of the cap will count towards your after-tax contributions cap.
After-tax (non-concessional) contributions[4]
0% – for after-tax contributions up to the after-tax contributions cap[4]
Top marginal tax rate – for after-tax contributions in excess of the cap[5]

In addition to these limits, there is also a limit on the total amount you can transfer into the retirement phase. This is known as the transfer balance cap, which is $1.6 million for the 2018-19 financial year.

If you hold more than the transfer balance cap in the retirement phase you will be required to withdraw the excess. You can keep the excess accumulating in a super account for as long as you like.

If you start your retirement income stream and your total balance increases above the $1.6 million transfer balance cap solely due to investment earnings, you do not need to withdraw the excess.

[1] Tax at the top marginal rate is payable within the fund if we don't hold your tax file number.

[2] High income earners (people with incomes (as defined) over $250,000 a year) will have an additional 15% tax imposed on their before-tax contributions. If an individual's income, excluding their before-tax contributions, is less than the $250,000 threshold, but the inclusion of their before-tax contributions pushes them over the threshold, the additional 15% tax will only apply to the part of the contributions that are in excess of the threshold. The ATO will assess liability for the additional tax and, if applicable, issue an assessment notice. The additional tax may be paid from superannuation by completing the release authority issued by the ATO and sending it to the super fund.

[3] The cap for 2018-19 is $25,000 and is indexed each year to Average Weekly Ordinary Time Earnings (AWOTE), rounded down to the nearest $2,500. If your total superannuation balance is under $500,000 at the end of the previous financial year, you can use any unused concessional contribution cap amounts on a rolling five-year basis. The carry forward option will first be available in the 2019-20 financial year. For example, if you contribute $20,000 in 2018-19, and $20,000 in 2019-20, you will have $10,000 in 'unused' contributions that you can contribute in the 2020-21 financial year. This is in addition to the annual cap of $25,000. Any unused amount can be carried forward for a rolling five-year period.

[4] After-tax contributions (also known as non-concessional contributions) are capped at four times the before-tax contributions cap ($100,000 for the 2018-19 financial year). Special rules apply to members who first brought forward the cap in the 2015-16 or 2016-17 financial years. If you are under age 65, you can bring forward, for up to a three-year period, an amount of up to three times the non-concessional cap amount in the first year. Your total amount that you can bring forward and the length of the brought forward period depends on your total superannuation balance at the end of 30 June of the previous financial year. The bring forward provision automatically starts from the first year that you contribute more than that year's non-concessional contributions cap. Individuals with a total super balance (across all funds) of more than the transfer balance cap ($1.6 million for the 2018-19 financial year) will have $0 after-tax contributions cap.

[5] You may withdraw superannuation contributions in excess of the non-concessional contributions cap plus associated earnings. By choosing to withdraw the excess non-concessional contributions, additional tax will not be incurred. However, any associated earnings withdrawn will be taxed at the individual's marginal rate of tax. Individuals who leave their excess contributions in the fund will be taxed on those contributions at the top marginal rate.

Tax deductibility of contributions

Personal contributions you make to super can generally be claimed as a tax deduction. If you are 65 years of age or more, you must be eligible to contribute to super and if you are under 18 years of age, you must be gainfully employed or running a business. You must also complete a *Notice of intent to claim or vary a deduction for personal super contributions* form (available from the Australian Tax Office (ATO)) and provide it to us by the earlier of:

- the date you withdraw those contributions from the fund
- the date you use those contributions to start an income stream
- the date you lodge your income tax return for the year that the deduction is claimed
- 30 June of the year following the year for which the deduction is to be claimed.

We must also give you an acknowledgement that we have received your notice.

Generally, employers can claim a deduction for all contributions made on behalf of employees under the age of 75 and for mandated contributions on behalf of employees without age restriction.

Employer contributions and deductible personal contributions will be assessed against the before-tax contributions cap.

Low income superannuation tax offset

If your adjusted taxable income is less than $37,000 in a year, you may be entitled to a tax offset on concessional contributions made to the fund during the year. The offset is equal to 15% of your total concessional contributions, subject to a maximum of $500.

The ATO will determine your eligibility for the offset and pay the amount directly to us.

Importantly, to be eligible for this offset, you must earn at least 10% of your income from business or employment and must not be the holder of a temporary visa.

Tax offset and spouse contributions

If your spouse makes after-tax contributions to your super, they may be eligible for a tax offset.

If your annual income[1] is under $40,000, then your spouse may receive a tax offset for after-tax contributions they make to your super account. The amount of the tax offset is 18% of the amount of the contribution, up to the maximum amounts described below.

If your annual income[1] is $37,000 or less, the offset will apply to all spouse contributions, up to $3,000. In this case, the maximum tax offset your spouse can receive in the financial year is $540 ($3,000 x 18%). No tax offset will apply to the amount of contributions over $3,000 although your spouse may still contribute more than $3,000 to your account if they choose.

If your annual income[1] exceeds $37,000, the cap of $3,000 is reduced by $1 for each $1 of your income[1] in excess of $37,000. The offset cuts out completely when your income reaches $40,000 ($37,000 + $3,000).

The offset will not be available if you receive contributions in excess of the non-concessional contributions cap or you have a total super balance greater than $1.6 million (indexed). The following table shows how the tax offset is calculated. You and your spouse may wish to seek advice from a financial adviser for your personal circumstances.

[1] Income includes assessable income plus total reportable fringe benefits and reportable employer superannuation contributions.

For more information on eligibility for the spouse contribution tax offset go to the ATO website ato.gov.au.

Calculating the tax offset based on your annual income[1]

Your annual income[1]	Tax offset
$37,000 or less	18% x spouse contribution[2] For example, if a $3,000 spouse contribution is made, the tax offset is $540, calculated as follows: 18% x $3,000 = $540
$37,000 to $40,000	18% x [spouse contribution[2] – (your income[1] – $37,000)] For example, if a $3,000 spouse contribution is made and your income[1] is $38,000, the tax offset is $360, calculated as follows: 18% x [$3,000 – ($38,000 – $37,000)] = $360
$40,000 or more	Nil

[1] Income includes assessable income plus total reportable fringe benefits and reportable employer superannuation contributions.
[2] Up to a maximum of $3,000 in spouse contributions.

Tax on investment earnings

The investment earnings of the fund are taxed at a maximum rate of 15%. The actual rate of tax paid may be less due to the effect of various tax credits, deductions and offsets.

The amount of tax payable on investment earnings is taken into account when calculating the unit price for each pre-mixed and single asset class investment option. This does not show on your statement.

Tax on withdrawals

This *Member Booklet Supplement* includes information about the tax payable if you withdraw your super from your account as a lump sum. If you decide to access your super through a superannuation income stream, the tax payable will be different.

For more information about our income streams, read the *Member Booklet Retirement Income Stream* and *Member Booklet Transition to Retirement Income Stream* (Product Disclosure Statements), available on our website or by contacting us.

The tax treatment of superannuation payments is complex and is not fully explained in this *Member Booklet Supplement*. You may wish to obtain professional taxation advice in regard to your personal circumstances.

Once you reach age 60, all withdrawals from your account are tax free

If you are aged 60 or over and you meet a condition of release, you can withdraw your super from the fund without paying any additional tax, even if your super has a taxable component.

Tax on withdrawals under age 60

If you are under age 60, you may be able to receive some of your super tax free.

However, you may have to pay tax when you withdraw money from your super. The amount of tax you pay will depend on your circumstances including your age, the components of your benefit, whether you have provided your tax file number (TFN) and how your benefit is paid. If we do not have your TFN we may be required to withhold tax at the highest marginal tax rate (plus Medicare and other applicable levies).

Your super may include a tax-free component and a taxable component

Your benefit payment may comprise two components – a tax-free component and a taxable component.

The tax-free component

The tax-free component is made up of a contributions segment and a crystallised segment.

- **The contributions segment**
  Generally, the contributions segment is made up of contributions made from 1 July 2007 which have not been subject to tax in the fund. Typically, this will include your after-tax contributions and any government co-contribution.
- **The crystallised segment**
  The crystallised segment is made up of concessionally-taxed components that existed before the super reforms of 1 July 2007. Generally, this will include any of the following amounts that applied to you as at 30 June 2007:
  - pre-July 1983 component
  - post-June 1994 invalidity component
  - capital gains tax exempt component
  - undeducted contributions since 1 July 1983
  - concessional component (redundancy, invalidity and approved early retirement scheme payments made prior to 1 July 1994).

The taxable component

The taxable component is the remainder of the benefit payment.

The proportioning rule

Generally, when you receive a lump sum payment, tax law requires it to be divided into a pre-determined proportion of tax-free and taxable components. The proportion is calculated based on the value of your account at the time of payment so that the taxed component is paid in proportion to the tax-free component. You cannot choose the component from which you would like your benefit to be paid. The proportioning rule also applies to family law splits.

If you are under 60, you will pay tax on the taxable portion[1]

If you are under your preservation age, then the taxable component of any lump sum benefit will be taxed at 20% plus Medicare and other applicable levies.

If you have reached your preservation age but are not yet age 60, then up to a low rate threshold of $205,000 (for 2018-19, indexed[2]) of the taxable component of a lump sum may be withdrawn tax free, and a flat rate of 15% plus Medicare and other applicable levies is payable on the balance of the taxable component above $205,000. This is a lifetime threshold that applies to all of your lump sum superannuation benefits.

[1] The information in this section assumes your benefit is comprised solely of taxed elements (i.e. superannuation that has already had tax paid on it within the fund).

[2] The government indexes the amount of the low rate threshold to AWOTE, rounded down to the nearest $5,000. For example, if AWOTE is 1%, then the increase on $205,000 would be $2,050 and the threshold will not be increased. The indexation is rounded down to the nearest $5,000 so that the threshold will be increased in the year when the sum of the increments is $5,000 or more.

Your preservation age

Your preservation age depends on your date of birth:

If your date of birth falls	Your preservation age is
Before 1 July 1960	55
Between 1 July 1960 and 30 June 1961	56
Between 1 July 1961 and 30 June 1962	57
Between 1 July 1962 and 30 June 1963	58
Between 1 July 1963 and 30 June 1964	59
After 30 June 1964	60

Summary of tax payable on lump sum withdrawals[3]

Age or circumstance	Taxable component	Tax-free component
Total benefit under $200	Tax free	Tax free
Under your preservation age	Taxed at 20% plus Medicare and other applicable levies	Tax free
Your preservation age up to age 59	Tax free up to the low rate threshold of $205,000 for 2018-19[4]. Amounts above the low rate threshold will be taxed at a flat rate of 15% plus Medicare and other applicable levies.	Tax free
Age 60 and over	All benefits from a taxed fund such as First State Super are tax free.	Tax free

[3] The information in this section assumes your benefit is comprised solely of taxed elements (i.e. superannuation that has already had tax paid on it within the fund).

[4] The government indexes the amount of the low rate threshold to AWOTE, rounded down to the nearest $5,000. For example, if AWOTE is 1%, then the increase on $205,000 would be $2,050 and the threshold will not be increased. The indexation is rounded down to the nearest $5,000 so that the threshold will be increased in the year when the sum of the increments is $5,000 or more.

No tax is payable on withdrawals if you are terminally ill

If you are terminally ill, no tax is payable on lump sum payments made to you from your super. To be considered terminally ill for tax purposes, two medical practitioners (at least one of whom is a specialist in your particular illness) must certify that you are suffering an illness which, in the normal course, would result in your death within a period of not more than 24 months.

Tax on amounts for temporary residents departing Australia

Where superannuation is paid to a temporary resident who has departed Australia, the amount of tax payable depends on the type of visa held. For former working holiday makers (holding visa types 417 and 462, or an associated bridging visa), tax at 65% is payable on the taxed component of any benefit paid from the fund. For holders of other temporary visa types, the taxable component is taxed at 35% when paid from the fund. No tax is payable on the tax-free component.

Refer to the *Member Booklet Supplement: How super works* for more information on the payment of benefits to temporary residents.

Components of a total and permanent incapacity benefit

If you are under age 65, you may qualify for an increased tax-free component if you are permanently incapacitated. To be considered permanently incapacitated for tax purposes, two medical practitioners must certify that, because of your ill-health (whether physical or mental), you are unlikely to engage in gainful employment for which you are reasonably qualified by reason of your education, training or experience.

Tax on amount paid under the First Home Saver Scheme

If you are eligible and withdraw super benefits under the First Home Saver Scheme, different tax rules apply. You must apply through the ATO, and the amount released will be paid by the fund to the ATO, who will withhold tax before paying the benefit. Tax is payable at your marginal tax rate, plus Medicare and other applicable levies, less a 30% tax rebate.

Refer to the *Member Booklet Supplement: How super works* for more information on the First Home Saver Scheme.

Tax on income protection benefits

If you are paid income protection insured benefits and are under age 60, the amount of tax you pay will depend on whether you provide your tax file number and your responses on the tax file number declaration you provide at the time. If you provide your tax file number, these benefits will be subject to tax at your personal marginal tax rate (plus Medicare and other applicable levies).

Tax on death benefits

The tax payable on death benefits depends on whether the beneficiary is a dependant under the tax provisions. The table below outlines the tax treatment of lump sum death benefits paid to a dependant or non-dependant, defined under tax law.

Relationship to deceased member	Age	Tax-free component	Taxable component (Element taxed)	Taxable component (Element untaxed)
Dependant	Any age	Tax free	Tax free	Tax free
Non-dependant	Any age	Tax free	Taxed at 15% plus Medicare and other applicable levies.	Taxed at 30% plus Medicare and other applicable levies.

A payment made by the fund to the estate or legal personal representative (LPR) is paid as a tax-free lump sum. The LPR is responsible for withholding the appropriate tax from the amount payable to the end beneficiary. A dependant (for tax purposes) includes:

a) your spouse or former spouse (including a de facto spouse, same sex or opposite sex)

b) your children under age 18

c) a person with whom you have an interdependency relationship

d) any other person who is financially dependent on you.

Tax file number and death benefits

The fund must withhold tax at the highest marginal tax rate (plus Medicare and other applicable levies) if a non-dependant beneficiary's TFN is not provided to the fund.

To take full advantage of super, provide your TFN

You will pay additional tax if we do not have your TFN. You are not legally required to provide us with your TFN, but if you have not provided it:

- we cannot accept any after-tax contributions to your account. We must return any after-tax contributions you make and these amounts will not be invested and will not earn interest
- a further 34% tax may be payable on all before-tax contributions received (including any employer contributions to your account) and additional tax will be withheld (at the highest marginal rate plus Medicare and other applicable levies) on the taxable component of benefits paid to you before age 60. Additional tax on contributions will be payable at the end of the financial year or the date that you withdraw your benefit, whichever occurs first
- any TFN additional tax liability will take priority over your insurance premiums and your insurance may cease if your account balance is not sufficient to pay both your insurance premiums and the additional tax.

How is the tax paid?

The additional tax will be payable at the end of the financial year or the date that you withdraw your benefit, whichever occurs first. The tax is payable if we do not have your TFN at that time and it will generally be deducted from your account at 30 June (or when you withdraw your benefit). Special rules apply if you were a member of First State Super on 30 June 2007 and your employer and salary sacrifice contributions for a financial year are less than $1,000.

If you are paid a benefit as either a lump sum or an income stream, or you split your account or contributions with your spouse and we do not have your TFN, then tax will be deducted at the time of payment.

Refund of tax if TFN is subsequently provided

If you or your employer subsequently provide your TFN, you may be entitled to a refund of the tax.

Generally, the refund can only be claimed if you supply your TFN within three years of the tax being deducted from your account. If you qualify for a refund, we will automatically process it if the contributions are held in the same account. If you have merged or transferred benefits between accounts in First State Super or started an income stream with the contributions, you will need to contact us to request the refund. The refund cannot be credited to an income stream account.

How to provide your TFN

You can provide your TFN online in the **secure member login** and directly to the fund by contacting us, or completing the section in your application or member details form. You can also download and complete the *Tax file number collection* form from our website. Your completed form should be sent to First State Super, PO Box 1229, Wollongong NSW 2500.

Alternatively, you can quote your TFN to your employer when starting employment and it will automatically be taken to be quoted for superannuation purposes. Your employer is obliged to give your TFN to the superannuation fund within 14 days of the TFN being quoted or, if you give your employer your TFN more than 14 days before a contribution is made, by the end of the day on which the contribution is made. You can check if your employer has provided your TFN by referring to your welcome letter or most recent benefit statement by logging into your account online, or by contacting us. If your TFN has not been provided, you can provide it to the fund at any time by the methods described above.

What can we do with your TFN?

Under the *Superannuation Industry (Supervision) Act 1993*, the trustee is authorised to collect, use and disclose your TFN for administering your superannuation benefit.

We may disclose your TFN to another superannuation provider when your benefits are being transferred, unless you ask us in writing not to disclose your TFN to any other superannuation provider.

Declining to quote your TFN is not an offence, however, doing so will have the following advantages:

- the fund will be able to accept all permitted types of contributions to your account
- other than the tax that may ordinarily apply, you will not pay more tax than you need to. This affects both contributions to your superannuation account and benefit payments when you start drawing down your superannuation benefits
- it will make it much easier to find different superannuation accounts in your name, and match your accounts in the fund, so that you receive all of your superannuation benefits when you retire.

For more information about the tax that may apply to super, visit the ATO website, ato.gov.au.

Contact us

Phone	1300 650 873
Fax	1300 722 072
Email	enquiries@firststatesuper.com.au
Web	firststatesuper.com.au
Post	PO Box 1229, Wollongong NSW 2500