

Tax

and your retirement

Issue 4



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Tax and your retirement

Taxation of superannuation is a complex subject and the tax you pay depends on many variables. This flyer provides you with an overview of how tax may affect your ASGARD Super or Pension Account.

The information in this flyer assumes that you are an Australian resident. If you are not an Australian resident for income tax purposes, different taxation rules may apply.

ASGARD strongly recommends that you consult your financial adviser or a suitably qualified professional regarding the tax consequences of any decisions you make.

The basics – all that terminology you’ve never understood!

Reasonable Benefit Limit (RBL)

What is an RBL?

RBLs are the maximum amount of super benefits that you can receive over your lifetime at reduced tax rates. There are two types of RBL – a lump sum RBL and a pension RBL. Each year, RBLs are indexed in line with movements in the Average Weekly Ordinary Times Earnings (AWOTE) index.

If you had RBLs at 1 July 1994 which were higher than the flat-dollar limits, you may be able to apply to the Australian Taxation Office (ATO) to register RBLs based on those entitlements (known as Transitional RBLs). You should see your financial adviser if this applies to you.

Which RBL amount applies to you?

Your RBL amount depends on whether you receive benefits in the form of:

- a lump-sum
- a non-complying pension or annuity such as the Allocated Pension Account
- a complying pension or annuity, including a term allocated pension account.

The Allocated Pension Accounts offered by ASGARD are non-complying pensions, and therefore count as lump sum benefits for the purposes of determining which RBL applies (you may still qualify for the pension RBL if you have sufficient funds elsewhere in a complying pension).

Benefits taken from superannuation, and some benefits taken from your employer, will be assessed against your relevant RBL. Most benefits will be assessed against your lump sum RBL unless you qualify to have them assessed against the higher pension RBL. To qualify for this, you will need to take at least half of your assessable benefits in the form of a complying pension, such as a term allocated pension.

Reasonable Benefit Limit

Type of benefit	RBL* 2004-2005
Lump-sums and non-complying pensions and annuities	\$619,223
Complying pensions/annuities	\$1,238,440

*These amounts are subject to annual indexation. If you receive benefits prior to your 55th birthday, your lump-sum RBL will be reduced by 2.5% for every year by which you are younger than age 55.

The ATO will inform you in writing if they assess any part of your benefit as 'excessive'.

So why not have a complying pension instead of a non-complying pension and access the higher RBL?

Allocated pensions offer you flexible payments and the ability to draw down lump-sum amounts. On the other hand, complying pensions must adhere to set pension payments, offering you little or no flexibility. Term allocated pensions offer some of the payment flexibility of an allocated pension but have restrictions on withdrawals of lump sum amounts.



The pension RBL generally applies if at least 50% of the superannuation benefits you are entitled to throughout your lifetime are taken in the form of complying pensions/annuities or term allocated pensions.

As a result many people choose to have a combination of complying or term allocated pensions and non-complying pensions to access the higher RBL, while maintaining maximum flexibility in their retirement plans.

What happens to any super that is more than the applicable RBL?

- Lump-sum amounts taken in excess of your RBL are considered an excessive component. The post-June 1983 taxed element of the excessive component is taxed at a maximum rate of 38% plus the Medicare levy. The remainder of the excessive component is taxed at 47% plus the Medicare levy.
- Non-complying pension payments in excess of your RBL are taxed at your marginal tax rate plus the Medicare levy.
- If you have not exceeded your RBL and you are over 55 or disabled, you will receive a 15% tax rebate against the tax you pay on your assessable pension payments. However, if you are over your RBL, the rebate does not apply to the excessive amount.

ASGARD recommends you discuss your RBL position with your financial adviser prior to withdrawing any superannuation or commencing a pension.

If the ATO determines that you are receiving amounts in excess of your RBL, please notify ASGARD immediately. This will affect the amount of tax that will apply to your pension or commuted lump-sum payment.

Eligible Termination Payment (ETP)

An ETP is a payment from your Super Account or certain payments to you from your employer upon retirement, resignation, retrenchment or disablement. ETPs can be made up of a number of different components, and each component has its own tax rules. The possible components are:

- **Spouse and Personal Undeducted contributions (including Government Co-contributions)** – contributions for which no tax relief has been claimed.

- **CGT exempt** – contributions made from the proceeds of the sale of a small business. If you sell a small business, you would usually be liable for capital gains tax (CGT) on any capital gain arising from that sale. By depositing the proceeds into your super, you avoid having to pay the CGT. You should note that this type of contribution has many rules surrounding it.
- **Concessional** – super contributions made to your account before 1 July 1994 for either redundancy, early retirement or invalidity payment.
- **Post-June 1994 invalidity** – part of an ETP made to you after 1 July 1994, attributable to the period from the date of invalidity to your last retirement date.
- **Pre-July 1983 and post-June 1983 components** – the remainder of your super apportioned over the amount of your eligible service period before and after 30 June 1983.

To find out how tax affects any withdrawals from your super, see 'Taking lump sum payments from your super' on page 6.

Contribution types

There are seven different types of contributions that can be made to your Super Account:

Superannuation Guarantee Contribution (SGC)	SG contributions are the compulsory 9% contributions that your employer is required to make on your behalf.
Employer Contribution	Additional contributions made by your employer over and above the required 9% SGC.
Salary Sacrifice Contribution	Employer contributions made on your behalf, in lieu of salary.
Personal Undeducted Contribution	After tax contributions and/or contributions made by you for which you haven't claimed a tax deduction.
Spouse Undeducted Contribution	After tax contributions paid by your spouse into your Account.
Personal Deducted Contribution	Contributions made for which an income tax deduction is available and claimed (see page 4).
Government Co-contribution	In certain circumstances you may be eligible to receive a co-contribution from the Government. You should discuss your eligibility for these co-contributions with your financial adviser.

Tax and your retirement

How your super contributions are taxed

Generally, contributions made to your super are taxed at 15%. However there are two cases where your contributions will not be taxed as you are using after-tax savings:

- A personal undeducted contribution you make into your Account
- A contribution your spouse makes into your Account.
- Government Co-contributions received in your Account

Claiming tax deductions on your super contributions

Self-employed people (and some retirees) may be eligible to claim income tax deductions on personal superannuation contributions. You may also be eligible for income tax deductions if, during the financial year, 90% or more of your total assessable income, exempt income and reportable fringe benefits is derived from sources other than employers (and/or their associates).

The amount of the tax deduction available is limited to the first \$5,000 of contributions made during the year plus 75% of any additional contributions. However, the total deduction claimed cannot exceed your age-based deduction limit.

Age-based deduction limits

Your age on the day of the last contribution during the financial year	Deduction limit for 2004-2005 financial year
Under 35 years of age	\$13,934*
35 to 49 years of age	\$38,702*
50 years or more	\$95,980*

** These amounts are indexed annually*

Simplicity



Freedom

Obtaining tax rebates and other benefits on contributions

If you are not eligible to claim a tax deduction for a contribution to your Super Account, you may still be entitled to one of the following tax rebates or concessions. You should discuss with your financial adviser whether you qualify for any of the following:

Government Co-contribution

If you are not eligible to claim a tax deduction for your personal contribution, you may be eligible to receive up to \$1,500 as a 150% co-contribution to super from the Government.

The amount of co-contribution available depends on your income and the amount of personal contributions you've made into super throughout the year. The maximum co-contribution for a financial year is \$1,500 and is available to you if your total income (including reportable fringe benefits) is \$28,000 or less in that financial year.

The co-contribution is reduced by 5 cents per dollar of income up to a total income of \$58,000 when it phases out completely.

ASGARD will be able to accept Government Co-contribution amounts in the June quarter of 2005.

Rebate for contributions made to your spouse's Super Account

If your spouse earns less than \$13,800 each year and you make a spouse contribution to their Account, you may be eligible to claim a tax rebate of up to \$540 (maximum) on contributions of up to \$3,000 per annum.

The amount of the rebate allowable each year is reduced by 18c for every \$1 which your spouse's assessable income (plus reportable fringe benefits) exceeds \$10,800, reducing to zero at \$13,800.

Super Surcharge

If you are a high income earner, you may be subject to the superannuation surcharge on some or all of your superannuation contributions.

Your surchargeable contributions include:

- any employer contributions
- personal contributions for which you claim a tax deduction

- a proportion of any employer ETP that you have rolled into your Super Account.

In addition to contributions tax, the sum of these contributions is subject to the superannuation surcharge if your ATI is more than \$99,710*. Your ATI includes your taxable income (from your tax return) plus your surchargeable contributions plus certain fringe benefits. The surcharge rate is:

$$\frac{\text{Your ATI} - 99,710^*}{\$1,709.20^*}$$

If your ATI is \$121,075* or above, the surcharge rate is capped at 12.5%. However, the maximum rate will be gradually reduced to 10%. The maximum surcharge rates are:

Financial year	Surcharge rate
2004 – 2005	12.5%
2005 – 2006	10%

The exact amount of any surcharge is determined by the ATO, who will notify you if it applies to you.

Deductibility of ASGARD's Fees

All fees and charges are treated as a tax deduction in ASGARD Super Accounts. Deposit charges are also tax deductible in ASGARD Pension Accounts. This means that the net cost of investing through ASGARD is 85% of these fees. For example, if you have agreed with your financial adviser a 1% upfront fee for deposits to your Account, the net ongoing fee charge after taking into account the benefit of tax deductions would be 0.85% (1% ongoing fee less a 15% tax deduction on that fee). These fees are not personally deductible to you.

How money you earn in your Super Account is taxed

Generally, any income earned in your Super Account is taxed at a maximum rate of 15%. For most people, this is much lower than the income tax they pay outside superannuation. Any tax on the earnings in your super is payable by the fund and will be deducted from the value of your account for payment to the ATO.

For some managed investments, the administration of the tax is handled by the investment manager. These are known as Pooled Super Trusts (PSTs). The tax administration for Non-tax Paid (NTP) investments is handled by ASGARD.

* These amounts apply for the 2004 – 2005 income year and are indexed annually.

Tax and your retirement

PSTs and tax

These managed investments pay tax at investment manager level and are not subject to any further tax in your ASGARD Account (either on income or on capital gains on redemptions).

NTPs and tax

These investments do not pay tax at investment manager level and superannuation funds (such as ASGARD) that invest in them are required to pay:

- tax at 15% on any taxable income distributed to them
- tax at up to 15% on any capital gains distributed to them or arising from redemptions.

Tax will be provided for in your ASGARD Account on such distributions or capital gains (before offsetting losses) at the rate of 15%. If we subsequently establish that tax is payable on this income at a rate lower than 15%, or that you have a capital loss which can reduce capital gains tax, your ASGARD Account will be adjusted. (Capital gains will generally be taxed at only 10% when the investment sold

has been held for at least 12 months.) However, these adjustments are only made annually, when the fund lodges its annual income tax return or receives its tax refund (if applicable). This will usually occur in December for the financial year ended on the previous 30 June.

You will receive the value of any franking credits on the investments in your ASGARD Account that the fund is able to claim. These savings are credited to your Account on an annual basis.

If you close an ASGARD Super Account before the end of a particular financial year, other than through a rollover to an ASGARD Pension Account, you will not receive the benefit of any adjustment relating to that previous financial year.

Taking lump sum payments from your super

When you take a lump sum (an ETP) from your super, you may have to pay tax through your own tax return. Your tax will depend on the components of the ETP, as shown in the table below.

Tax treatment of components of a lump-sum benefit payment		
Components	Age under 55	Age 55 and over
Undeducted contributions	Tax-free	Tax-free
Post-June 1994 invalidity component	Tax-free	Tax-free
Concessional component	5% included in your taxable income and taxed at your marginal rate	5% included in your taxable income and taxed at your marginal rate
Pre-1 July 1983 component	5% included in your taxable income and taxed at your marginal rate	5% included in your taxable income and taxed at your marginal rate
Post-30 June 1983	Taxed at up to 20% (plus Medicare levy) **	First \$123,808* is tax-free and the balance is taxed at up to 15% (plus Medicare levy) **
CGT-exempt component	Tax-free	Tax-free
Excessive component***		
Post-June 1983 Taxed Component	Tax at 38% (plus Medicare levy)	Tax at 38% (plus Medicare levy)
Remainder	Tax at 47% (plus Medicare levy)	Tax at 47% (plus Medicare levy)

The Medicare levy of 1.5% (plus where applicable, the Medicare surcharge) may also be payable on the amount included in your taxable income.

* Applicable for 2004 – 2005 income year and increases each 1 July in line with movements in Average Weekly Ordinary Time Earnings (AWOTE)

** These rates assume there is no untaxed element forming part of your lump sum benefit

*** This component represents that amount of your superannuation savings you have withdrawn which is in excess of your RBL.

Converting from super to pension

When you retire you can take your super as a lump sum, roll your super into a Pension Account or arrange a combination of both.

If you choose a lump sum payment (ETP), withholding tax may apply on some of the components making up your super balance, as outlined in the table on page 6. This tax is withheld by ASGARD at the time of paying the lump sum to you. However, additional tax may be payable or refundable depending on your individual circumstances and the information available to ASGARD at the time of making the payment.

Converting your super to a Pension Account will help prevent you having to pay the lump sum ETP tax and may reduce or defer the amount of actual tax that you pay on your retirement funds.

If you have NTP investments in your ASGARD Super Account you can transfer these to an ASGARD Pension Account without redeeming them. As these NTP investments are not sold, there is no capital gains tax payable.

If you hold PST investments in your Super Account, these are automatically sold at the time of transfer to a Pension Account. However, tax is not payable in your ASGARD Account on this transfer as tax is already incorporated into the unit price declared by the PST.

How income earned in your ASGARD Pension Account is taxed

Income earned within your ASGARD Pension Account is tax free (however, tax may be payable on the income you receive). In addition, selling investments to fund your pension payments will not trigger any capital gains tax in your Pension Account. This means that a Pension Account is an extremely tax-effective way to enjoy income in your retirement. In contrast, if you took a lump sum from super, paid ETP tax as described earlier, and deposited the net amount into an investment account, you would have to pay tax on any future income or capital gains you make.

Benefit from franking credits

While investment earnings in your Pension Account are free of tax, you will receive the value of any franking credits on

the investments in your Account that the fund is able to claim. These savings are credited to your Account on an annual basis.

How your pension payments are taxed

The income tax rules treat your pension payments as income. The assessable amount of any payment is subject to income tax, and ASGARD will deduct tax instalments (PAYG tax) on your behalf.

Your income tax liability may be reduced as a consequence of:

- an allowance for a non-assessable portion of your pension payment known as the 'deductible amount'
- claims for the 15% pension rebate.

Your completed 'Tax File Number Declaration' determines how much PAYG tax ASGARD is required to withhold and remit to the ATO.

The deductible amount

If you have converted any undeducted contributions, post-June 1994 invalidity components or CGT exempt components (together called the 'undeducted purchase price') into your Pension Account, you will have a 'deductible amount'. It is calculated by dividing the 'undeducted purchase price' of the pension by your life expectancy factor at your pension commencement date (as determined by the Income Tax Assessment Act 1936).

$$\text{Deductible amount} = \frac{\text{Undeducted purchase price}}{\text{Life expectancy (at pension commencement date)}}$$

You do not pay tax on the portion of annual pension payments relating to your deductible amount.

The 15% annual tax rebate

You may be entitled to an annual tax rebate on part of your pension if you are:

- aged over 55 years
- permanently disabled
- receiving a death benefit in the form of a reversionary pension.

The rebate is calculated as:

$$15\% \times (\text{Annual Pension Payment} - \text{Deductible Amount})$$

If part of your pension is in excess of your RBL, the 15% rebate does not apply to that excessive component.

What happens when you die?

When you die, your superannuation and/or pension money usually goes to the person(s) you have nominated.

Payments to your spouse or dependants

If the lump-sum payment is made from your super money to a dependant (as defined for tax purposes and including any person in an interdependency relationship) it will be tax-free up to your pension RBL. If the lump-sum payment exceeds your pension RBL, the extra amount will be considered an excessive component and subject to tax (payable by your beneficiary) at a maximum rate of 38% plus the Medicare levy for the post-June 1983 taxed element. The remainder of the excessive component is taxed at 47% plus the Medicare levy.

If your spouse, interdependent or adult child receives your pension (reversionary pension) on your death, the pension does not count for RBL purposes. The payments will be assessable to them at their marginal tax rate (plus Medicare levy). They may also be entitled to claim the annual pension rebate based on the same rebatable proportion that applied to your pension (assuming your pension is within your RBL), together with the balance of any unused deductible amount. You should note that the reversionary pension deductible amount is recalculated using the remaining undeducted contributions and the life expectancy factor of the beneficiary at the date of transfer.

Payments to non-dependants

If you make a lump sum payment to a non-dependant, the payment will be treated as an ordinary ETP (although the beneficiary does not receive the benefit of a post-July 83 tax-free threshold). However, any amount in excess of your pension RBL will be considered an excessive component

and subject to tax at a maximum rate of 38% plus the Medicare levy for the post-June 1983 taxed element. The remainder of the excessive component is taxed at 47% plus the Medicare levy.

This rule applies regardless of whether the payment goes directly from your Account or via your estate.

About ASGARD

ASGARD is one of Australia's leading investment administration providers, administering superannuation, retirement and investment savings worth over \$17 billion for over 200,000 Australians. With an ASGARD Account, it's easy for you to diversify your savings and manage all your investments through one central contact point.

ASGARD has over 18 years experience in investment administration. In recognition of its ongoing commitment to providing service of the highest quality, ASGARD has received the following awards:

- Best Master Trust/Wrap – ASGARD eWRAP Investment – ASSET magazine awards for Excellence in Financial Services 2002, 2003 and 2004.
- Best Master Trust/Wrap – ASGARD eWRAP Super/Pension – ASSET magazine awards for Excellence in Financial Services 2002 and 2003.
- Runner-up Master Trust/Wrap – ASGARD eWRAP Super/Pension – ASSET magazine awards for Excellence in Financial Services 2004.
- Best online service for financial advisers as judged by independent expert Investment Trends in their September 2004 Competitive Analysis Report: Investment Platforms.

ASGARD

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In this flyer:

- 'Super' and 'Super Account' refer to the ASGARD Super Account, ASGARD Employee Super Account, eWRAP – Super Account, ASGARD Corporate Superannuation Service and ASGARD – Elements – Super Account.
- 'Pension' and 'Pension Account' refer to the ASGARD Allocated Pension Account, ASGARD Term Allocated Pension Account, ASGARD eWRAP – Pension Account and ASGARD Elements – Pension Account.

IMPORTANT INFORMATION

This general taxation information guide is based on our interpretation of existing laws and proposed legislation as at 17 January 2005.

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