



IOOF Portfolio Service

IPS fact sheet 107: Taxation information relating to allocated pensions

- IOOF Portfolio Service Allocated Pension
- IOOF Portfolio Service Wholesale Allocated Pension

This fact sheet provides you with some general information about the tax and social security implications of investing in an allocated pension, including:

- how pension payments are taxed
- how your benefits will be taxed if you make a cash withdrawal
- how earnings are taxed in a pension.

Super law

The laws relating to super, including tax laws, are complex and subject to change from time to time. We recommend that you obtain professional advice on the tax consequences before investing.

Contributions to super

You can commence your pension with any or all of the following:

- A personal contribution.
- A spouse contribution.
- One or more transfers of super benefits from other super funds, ADFs or superannuation annuities.
- A directed termination payment.
- One or more transfers from another IOOF super or pension product.

If you are making a personal contribution to purchase your pension, you cannot claim a tax deduction for this contribution. If you want to claim a tax deduction for your personal contributions, you must first make the contributions to a super account and then transfer it to purchase your pension. You must also provide a Tax Deduction Notice (under s. 290-170) to the trustee of your super account **before** you transfer your super benefits to a pension. Otherwise you may not be able to claim a tax deduction for those personal contributions.¹

If your spouse makes a contribution to purchase your pension, this contribution is not tax deductible but may be eligible for a tax offset. General eligibility conditions apply to claiming this tax offset. Personal contributions and spouse contributions are all treated as non-concessional contributions.

Are there any caps on non-concessional contributions to super?

You can make up to \$150,000² of non-concessional contributions to super each year. Also, until you turn age 65, you can choose to bring forward the next two years' entitlements and therefore contribute up to \$450,000² of non-concessional contributions in a single year. Contributions counted under this cap include personal contributions that are not tax deductible and spouse contributions.

¹ Tax deductible personal contributions are included in concessional contributions and subject to a separate annual cap. For more details please see the product disclosure statement for your super account.

² This cap will be indexed from time to time.



The following contributions are **not** included in this cap:

- Transfers from other super funds or schemes.
- Directed termination payments.
- Personal injury compensation payments contributed to super in respect of a person who is permanently disabled within 90 days.
- Proceeds from the sale of certain small business assets contributed to super up to a lifetime limit of \$1,155,000 (for the 2010/11 financial year). This limit (known as the 'CGT Cap') is indexed annually. For 2011/12 the limit will be \$1,205,000.

If you are making personal contributions and wish to claim an exemption from the non-concessional contributions cap because the contributions arise from injury compensation payments or from the sale of a small business, you must apply to us before or at the time you make the contribution.

Non-concessional contributions that exceed the cap are taxed at 45 per cent plus the Medicare Levy. The Australian Taxation Office (ATO) will assess you personally for this tax, and issue you with a Release Authority. You must present this Release Authority to the Fund within 21 days in order to make a special withdrawal to pay this tax.

Tax on transfers

Contributions tax (at a maximum rate of 15 per cent) is payable by us (and deducted from your pension account) and forwarded to the ATO on the following amounts paid into your account:

- The taxable component of a directed termination payment.
- The first \$1,155,000³ of a transfer of the 'untaxed element' from an unfunded public sector scheme. From 1 July 2011, this threshold will increase to \$1,205,000.

The actual amount of contributions tax paid to the ATO may be reduced by allowable 'tax deductible expenses', such as Contribution Fees.

Tax treatment of investment income

The following table describes the treatment of investment income derived from investment options held in a pension.

Investment income	General rate of tax
Interest and income distributions	Nil
Realised capital gains	Nil

As your investments are held within a tax exempt environment, no CGT applies if you choose to switch your investments or redeem any investments to provide for pension payments or cash lump sums.

Tax refunds credited to your pension account

Your pension account may be entitled to a tax refund due to franking credits. A franking credit is a tax credit available to the Fund for the tax that has already been paid by the issuing company on dividends received by a managed fund.

Transferring from an IOOF super product to an allocated pension

If you transfer investment options from another product within the Fund to an IOOF Portfolio Service allocated pension, no realisation of capital gains occurs on the transfer of your investments and your investments will be held in a tax-exempt environment. Therefore, if you redeem any of these investments from your pension account, no CGT liability will arise, even on capital gains that accrued while in the previous product.

Tax on benefits

Benefits paid at age 60 or more

Pension payments and any lump sum withdrawals from your pension account on or after you reach age 60 are tax-free.

Benefits paid before turning age 60

Benefits paid from your pension account before turning age 60 are split into a tax-free component and a taxable component on a proportional basis. You can only withdraw from your pension account on this proportionate basis. The tax-free component is the sum of all tax-free components used to commence the pension divided by the account balance on commencement, converted to a percentage. The tax-free percentage will then apply to all pension payments and lump sum withdrawals (including lump sum commutations and transfers) made from the account thereafter.

The sum of the tax-free components used to commence the pension includes any personal or spouse contributions and the tax-free components of amounts transferred into the pension account from other super accounts.

³ Amounts in excess of \$1,155,000 are subject to tax at the rate of 46.5 per cent.



If you are transferring from another super account within the Fund, the tax-free component in this account may include the following:

- Any tax-free component held in the super account on 30 June 2007 or transferred into the account after that date.
- Any non-concessional contributions made to the super account from 1 July 2007.

The tax treatment of benefits received prior to age 60 is as follows:

Component	Pension payment	Lump sum withdrawal
Tax-free	Tax exempt and not included in assessable income.	Tax exempt and not included in assessable income.
Taxable [#]	Included in assessable income. 15% tax offset applies if received after reaching preservation age (currently age 55) or if totally and permanently disabled.	Under preservation age (currently age 55): <ul style="list-style-type: none"> • 20% (plus Medicare Levy). Preservation age to age 59: <ul style="list-style-type: none"> • Up to \$160,000* threshold: 0% • Excess over threshold: 15% (plus Medicare Levy).

For 2011/12 only, an additional flood levy will apply where taxable income exceeds \$50,000. The levy is 0.5% on income over \$50,000 and 1.0% on income over \$100,000.

* Threshold increases annually with movements in Average Weekly Ordinary Time Earnings rounded down to the nearest \$5,000. From 1 July 2011, this threshold will increase to \$165,000.

Tax is not payable when you transfer your benefit to another super fund or to another product within the Fund.

If you are transferring from another pension product within the Fund, and choose to continue your current pension, the tax treatment of your pension will not change. Therefore, if the tax-free amount of your pension is being calculated on the basis of the pre 1 July 2007 tax rules, this will continue until you turn age 60, or earlier if you make a withdrawal. If you make a withdrawal, the tax-free component of your pension will be recalculated on the proportional basis above.

Death Benefits

The tax payable depends on whether the benefit is paid as a pension or a lump sum.

Death Benefit pensions

These are either reversionary pensions or new pensions paid to a nominated beneficiary on the death of the original pensioner. A Death Benefit pension is tax-free if either the deceased pensioner or the beneficiary is aged 60 or over. Death Benefit pensions paid where both the deceased pensioner and the beneficiary are under age 60 are taxed on the same basis as pensions paid to members under age 60. However, the 15 per cent offset applies even if the beneficiary is under preservation age. When the beneficiary turns age 60 the pension becomes tax-free.

Death Benefit pensions paid to dependant children must be commuted to a tax-free lump sum benefit once the child turns age 25 (unless the child is disabled). For other beneficiaries, if a Death Benefit pension is commuted to a lump sum within six months from the original pensioner's death or three months of probate/letters of administration (whichever is the later), the lump sum is treated as a lump sum Death Benefit and taxed as below. If the Death Benefit pension is commuted after this period, the lump sum is no longer treated as a Death Benefit and will be taxed as a normal super payment received by the beneficiary.

Lump sum death benefits

If the payment is made directly to your death benefits dependant(s) it will be tax-free. For tax purposes, a death benefits dependant includes:

- your spouse
- your children under age 18 (including a natural child, step child, adopted child or child of your spouse)
- a person who is partially or wholly financially dependent on you at the time of your death
- a person with whom you have an interdependency relationship at the time of death.

Lump sum benefits paid to a dependant who is not a death benefits dependant are taxed on a similar basis to lump sum benefits paid to those under age 60. However, the \$160,000 threshold⁴ does not apply and the tax rate on the taxable component will be 15 per cent (plus the Medicare Levy) on the taxed element and 30 per cent (plus the Medicare Levy) on the untaxed element. These rates apply regardless of whether the recipient is under or over the preservation age. The tax-free component of a lump sum Death Benefit is calculated as the same proportion as that which applied to the original pension (or would have applied if the original pensioner had been under age 60).

4 This threshold will increase to \$165,000 from 1 July 2011.



If the benefit is paid to your legal personal representative and is to be distributed to your death benefits dependants, the benefit will still be received tax-free by the death benefits dependants. However, if the ultimate beneficiaries of your estate are non-dependants, the taxable component of the Death Benefit will be taxed as set out in the previous paragraph.

Compensation for tax paid on contributions

An additional amount, 'tax saving amount', may be included in a lump sum benefit paid to the spouse or child of a deceased member in the event of their death. This additional amount is compensation for contributions tax paid while your benefit accrued in the Fund. The Fund pays the additional amount and is able to claim a tax deduction for this amount in the income year in which the payment is made. Any increase in the amount of the lump sum benefit paid is conditional upon the Fund being eligible for, and able to use, the tax deduction.

Centrelink/Department of Veterans' Affairs information

The Commonwealth Government applies two tests to assess if you are eligible for a Centrelink or Department of Veterans' Affairs (DVA) pension or allowance payment. The tests are the income test and the assets test. The test which gives you the lower rate of payment is the one Centrelink or DVA will use to determine your eligibility for a pension or allowance.

An investment in an allocated pension is assessed under both the Centrelink/DVA income and assets tests. The account balance is counted as an asset under the assets test. Under the income test, only part of the annual pension payment is counted as income. The excluded amount is calculated as the original investment less any later lump sum withdrawals divided by your life expectancy on commencement of the pension. If the pension is reversionary and the nominated beneficiary's life expectancy is longer than yours, the longer life expectancy is used.

General advice warning

The information contained in this fact sheet:

- does not and is not intended to contain any recommendations, statements of opinion or advice
- is of a general nature only and does not take into account your individual objectives, financial situation or needs.

You should consider the appropriateness of this information having regard to your objectives, financial situation and needs and you may want to seek advice before deciding whether to acquire this product.

Important notice

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