

## Concessional Contributions in the Retirement Scheme

### What are Concessional Contributions?

Concessional Contributions are contributions that are paid by your employer. These contributions are generally paid to meet certain obligations such as the Superannuation Guarantee, Notional Taxed Contributions (NTC) or could be part of an Award. Salary Sacrifice contributions paid on your behalf by your employer and any personal contributions that are allowed as an income tax deduction are also classed as Concessional Contributions.

Once these contributions are received, they are taxed at 15% by the superannuation scheme.

### What is the Concessional Contributions Cap?

Caps apply to Concessional Contributions made to your superannuation scheme for a financial year. Any super contributions made over the cap amount are subject to extra tax. The current Concessional Contributions Cap amount is \$25,000 per person per financial year. A transitional Cap of \$50,000 per person per financial year is available each year up to the 2011/2012 financial year to people who are at least 50 years old at the end of the financial year to which the contributions relate. This means that Concessional Contributions for a financial year totalling up to this amount will be taxed at the rate of 15%. Amounts in excess of the Cap amount will be taxed at 46.5% (an additional 30% plus the 1.5% Medicare Levy on top of 15% deducted by the Scheme).

Each year all superannuation providers report to the Australian Taxation Office (ATO) all Concessional Contributions received during the year. Based on this information as well as information from your income tax return, the ATO will assess if your total Concessional Contributions are in excess of the Cap amount and if so, will issue you with a notification for the additional tax on the amount over the Cap. You can pay this additional tax amount yourself, or instruct your superannuation provider to deduct this from your account.

The Concessional Contributions Cap is indexed to Average Weekly Ordinary Time Earnings (AWOTE) in \$5,000 increments.

It is important to note that if you have Concessional Contributions being paid into another superannuation fund from a second job these amounts will also contribute to your Concessional Cap as this is a total amount not a per fund amount.

Your excess Concessional Contributions also count towards your Non-Concessional Contributions Cap.

Non-Concessional Contributions are any after-tax contributions to a superannuation fund. For 2010/2011 the limit is \$150,000 p.a. or \$450,000 over a consecutive 3 year period.

Members should be aware that it is not Local Government Super's responsibility to determine whether or not a member has exceeded the Cap. Members should carefully monitor their Concessional Contributions so as to avoid exceeding the Cap.

## Concessional Contributions in the Retirement Scheme

### How it works in the Retirement Scheme

Special rules apply to work out the amount of Concessional Contributions for members with a defined benefit interest.

Members of the Retirement Scheme do not receive Superannuation Guarantee contributions in the same way as Accumulation Scheme members so a Notional Taxed Contribution (NTC) is calculated and reported to the ATO for the purpose of assessing the Concessional Contributions for the financial year. The NTC will be added to any other Concessional Contributions that may have been made to the Other Contributions Account or any other superannuation account that you may hold.

### What is the NTC?

The NTC only applies to the part of your account that makes up your defined benefit. The NTC includes any amounts you Salary Sacrifice to the Contributor Financed Benefit (CFB) to purchase Benefit Points and the notional amounts calculated for your Employer Financed Benefit (EFB) and Basic Benefit (BB). The NTC for the EFB and BB are calculated at the beginning of the financial year based on your salary at the previous 31 December as provided by your employer.

It is important to note that for members who have accrued 180 Benefit Points, only the BB will make up the NTC as contributions to the CFB no longer purchase Benefit Points and no further EFB Benefit Points will accrue. A pro-rata value will apply for the CFB in the year that a member reaches 180 Benefit Points.

### Special arrangements for Retirement Scheme members

Special rules apply to individuals who were members of the Retirement Scheme as at 5 September 2006 or 12 May 2009. If your NTC in a financial year exceeds your Concessional Contributions Cap and you meet the special conditions explained below, the Scheme will treat your NTC as being equal to your Concessional Contributions Cap. This is called the "grandfathering" of your NTC. So, if the NTC is calculated to be over the Cap, this will be reported to the ATO as equal to the Cap level.

The grandfathered Cap only applies to notional taxed contributions, which relates only to the defined benefit portion of your benefit. It does not apply to other accumulation style employer contributions (including optional salary sacrificed and Award contributions) made to this Scheme or another superannuation fund you might have.

The grandfathering arrangements may cease to apply in certain circumstances, for example if a member changes their contribution rate band due to a change in contribution rate, or the Scheme makes changes to its benefit rules resulting in benefit improvement or other circumstances prescribed by law. The rules governing grandfathering provisions are complex, so should you need further information please contact Member Services.

While the NTC for the BB (calculated at 1.2% of salary) is a set calculation based on your salary, the calculation of NTC in respect of the EFB is based on your salary and the amount that you contribute, i.e. the more you contribute, the higher the NTC for the EFB will be. As such there have been 'grandfathering' arrangements made so that members who have previously maintained a certain contribution rate will be exempt from exceeding the Cap (only on the NTC) provided they do not exceed that rate. This means that providing you meet the grandfathering arrangements for the full financial year, your NTC for that financial year will only be reported up to the current Concessional Cap amount.

The contribution rate used to determine your maximum rate for maintaining the grandfathering arrangements is the higher of your contribution rates as at either 5 September 2006 or 12 May 2009. If at any point you have a contribution rate that is higher than your

## Concessional Contributions in the Retirement Scheme

maximum rate band, you will not be covered by the grandfathering arrangements for that financial year and be subject to additional tax if your NTC goes above the Concessional Cap. However, if you change back to a rate at or below your maximum rate band, you will again be covered by the grandfathering arrangements.

### Maximum contribution rate bands

As stated in the previous section, to qualify for the grandfathering arrangements, you need to remain at or below your maximum contribution rate which is determined by the higher of your contribution rates as at either 5 September 2006 or 12 May 2009. However, depending on your maximum contribution rate band you may also be able to contribute at a higher rate within the same band without losing the grandfathering arrangements.

The NTC in respect of the EFB is calculated as a percentage of salary based on your contribution rate and class of membership. The rates are as follows:

Member contribution rate bands	NTC % of salary standard members
Up to 3%	4.8
4%	6.0
5%	8.4
6% or more (max 9%)	9.6

Member contribution rate bands	NTC % of salary ex-SPSF* members
Up to 3%	4.8
4%	7.2
5%	9.6
6% or more (max 9%)	10.8

\*State Public Service

Member contribution rate bands	NTC % of salary NRF** member
Up to (and including) 3.4%	4.8
Over 3.4% and up to 4.1%	6.0
Over 4.1% and up to 4.8%	7.2
Over 4.8% and up to 5.5%	8.4
Over 5.5% or more (max 9%)	9.6

\*\*NSW Retirement Fund

Member contribution rate bands	NTC % of salary Ex- Benefit Fund members
Up to 3%	4.8
3.5%	6.0
4%	6.0
5%	8.4
6% or more (max 9%)	9.6

The NTC for the Basic Benefit is calculated as 1.2% of your superable salary based on days of service from 1 July to the end of the financial year.

## Concessional Contributions in the Retirement Scheme

### How to calculate the NTC

As an example of how to calculate the NTC, we will base this on a standard member aged under 50, with a salary of \$125,000 and a contribution rate of 6% (all on salary sacrifice basis pre-tax). This is not catering for Concessional Contributions outside the NTC.

<b>NTC for CFB</b>	<b>(\$125,000 x 6%) =</b>	<b>\$7,500</b>
<b>NTC for EFB</b>	<b>(\$125,000 x 9.6%) =</b>	<b>\$12,000</b>
<b>NTC for BB</b>	<b>(\$125,000 x 1.2%) =</b>	<b>\$1,500</b>
<b>Total NTC</b>		<b>\$21,000</b>

As the Concessional Cap for persons under 50 is currently \$25,000, the Cap has not been exceeded. However, if the member were to have any additional employer contributions or salary sacrifice to this or another account, these amounts would be added to the NTC total and if greater than \$4,000 would put them above the Cap.

To show how the grandfathering arrangements work, we will use the same scenario but change the salary to \$150,000.

<b>NTC for CFB</b>	<b>(\$150,000 x 6%) =</b>	<b>\$9,000</b>
<b>NTC for EFB</b>	<b>(\$150,000 x 9.6%) =</b>	<b>\$14,400</b>
<b>NTC for BB</b>	<b>(\$150,000 x 1.2%) =</b>	<b>\$1,800</b>
<b>Total NTC</b>		<b>\$25,200</b>

Assuming this member has met the grandfathering arrangements and that they have exceeded the Cap by \$200, their NTC as reported to the ATO would be \$25,000. Any additional employer contributions or salary sacrifice contributions to this or another account would be classed as being in excess of the Cap and taxed at 46.5%, the highest Marginal tax Rate (including the Medicare levy).

For example, if this member also had contributions of \$5,000 into their Other Contributions Account, the NTC would still be reported as \$25,000 but as the additional \$5,000 is in excess of the cap, it would be taxed at 15% by the Scheme and the member would be issued a notification from the ATO for the additional tax of 31.5% on the amount that is in excess of the cap.

It is important to note that the examples shown here are calculated using fixed amounts. As a member of the Retirement Scheme, changes to your salary and/or contributions rate during the financial year could have an effect on your CFB and therefore your NTC.

### More information

The information provided has been based on contributing full time members and calculations in the examples have been simplified. We recommend that you obtain financial advice to determine how the Concessional Contribution Cap may affect your situation. Contact Member Services on 1300 369 901 for help in this regard.

Issued by LGSS Pty Limited (ABN 68 078 003 497) (AFSL 383558), as Trustee for Local Government Superannuation Scheme – Pool A (ABN 74 925 979 278) and Pool B (ABN 28 901 371 321) – collectively known as Local Government Super. This document contains general information only and is not intended to be a substitute for advice. It does not take into account any individual's or organisation's investment objectives, financial situation or particular needs. Accordingly any individual or organisation should seek professional advice that takes account of investment objectives, financial situation, and particular needs before making a decision in relation to any of the matters covered in this document. Date issued: 16 August 2011.