



Concessional Contributions in the Defined Benefit 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 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 contributions made to your superannuation scheme for a financial year. Any super contribution made over the cap amount are subject to extra tax. The current Concessional Contribution 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% paid 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 the 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 funds. For 2009/2010 the limit is \$150,000 p.a or \$450,000 over a consecutive 3 year period.

Members should be aware that it is not the Scheme'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.

How it works in the Defined Benefit Scheme

Special rules apply to work out the amount of Concessional Contributions in defined benefit funds. As members of the Defined Benefit Scheme do not receive Superannuation Guarantee contributions in the same way as Accumulation Scheme members, 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 Personal Account (PA) to purchase units and the amounts calculated for your Employer Benefit (EB) and Basic Benefit (BB). The NTC for the EB and BB are calculated at the beginning of the financial year based on your last recorded Annual Review Day salary as provided by your employer.

It is important to note that for members who have reached their Retirement Age, only the BB will make up the NTC. A pro-rata value will apply for the EB and PA in that year.

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Special arrangements for Defined Benefit Scheme members

Special rules apply to individuals who were members of the Defined Benefit 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 requirements explained here, the Scheme will treat your NTC as being the 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 being at the Cap level.

The grandfathered Cap only applies to Notional Taxed Contributions, which relate only to the defined portion of your benefit. It does not apply to other accumulation style employer contributions (including award and salary sacrificed contributions) made to this Scheme or another fund you may have.

The grandfathering arrangements may cease to apply in certain circumstances for example if the Scheme makes changes to its benefit rules resulting in benefit improvements or other circumstances prescribed by law. The rules governing grandfathering provisions are complex, for further information please contact Member Services.

It is important to note that while the NTC will not exceed the Cap, any other Concessional Contributions outside the NTC may cause you to exceed the Cap.

How do you calculate your NTC?

Calculation of your NTC depends on your Retirement Age and is calculated as follows:

If your Retirement Age is 60

NTC = Salary x 6%* + salary sacrificed compulsory contributions to the Defined Benefit Scheme.

$$*6\% = 4.8\% \text{ (EB)} + 1.2\% \text{ (BB)}$$

Once you have reached age 60, the rate drops to 1.2%. If you turn 60 within the financial year an apportionment of the rate will take place.

If your Retirement Age is 55

For women who elected retirement age of 55 at entry into the Scheme, NTC = Salary x 7.2%** + salary sacrificed compulsory contributions to the Defined Benefit Scheme.

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$$**7.2\% = 6\% \text{ (EB)} + 1.2\% \text{ (BB)}$$

Once you have reached age 55, the rate drops to 1.2%. If you turn 55 within the financial year an apportionment of the rate will take place.

How to calculate the NTC

As an example of how to calculate the NTC, we will base this on a female member under age 50 with a Retirement Age of 60, on a salary of \$80,000, and salary sacrificed defined contributions of \$4,800 to the Defined Benefit Scheme. This does not include any Concessional Contributions outside the NTC.

$$\begin{aligned} \text{NTC} &= (\$80,000 \times 6\%) + \$4,800 \\ &= \$9,600 \end{aligned}$$

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 \$15,400 would put them above the Cap.

For example, if this member also had Salary Sacrifice contributions of \$20,000 in their Other Contributions Account, the NTC would still be reported as \$9,600 but of the additional \$20,000, \$4,600 would be in excess of the cap. The whole of the \$20,000 contribution into the Other Contribution Account would be taxed at 15% by the Scheme but for \$4,600 of that amount (the total in excess of the Cap), the member would be issued a notification from the ATO for the additional tax of 31.5% on the excess amount.

It is important to note that the examples shown here are calculated using fixed amounts. As a member of the Defined Benefit Scheme, changes to your salary during the financial year could have an effect on your PA 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.

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