Australian Government
Commonwealth Superannuation Corporation

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Tax and your DFRDB pension

What is in this factsheet?

You can make two types of contributions.
These are non–concessional and concessional contributions.

- What components make up my pension?
- What are marginal tax rates?
- How is my pension taxed?
- What tax concessions are available?
- What is a tax offset?
- Where can I get more information?

Who should read this factsheet?

This factsheet provides general information about tax offsets available to pensioners who are receiving a Defence Force Retirement and Death Benefits (DFRDB Scheme) pension.

Please Note

CSC does not 'tax' your pension. We are required to withhold amounts in accordance with Australian Taxation Office (ATO) guidelines. We do not have access to ATO-held information about your super interests with other funds. If you receive a Benefit Estimate from us, any withholding amounts provided will not take your personal financial circumstances into account, including current or previous super income which may lead to additional tax being imposed by the ATO after it is paid. You should seek independent tax advice from an accountant or appropriately qualified tax professional - we cannot provide individual tax advice.

What components make up my pension?

Your pension can be comprised of three components. These are dependant on age and the source of the contributions that are made into your superannuation account before conversion into a pension. These are:

Tax–free component

The tax–free component can be made up of several contribution types and any non–concessional (personal) contributions that you paid to the scheme on a fortnightly basis, and were then applied to your pension. You don't normally pay tax on the tax–free component of your pension.

CSC — DFRDB Defence Force Retirement & Death Benefits Scheme

Taxed component

You may have a taxed component of your pension if you retired prior to 1994.
This is called the Taxed element on your annual payment summary.

Untaxed component

This component consists of Employer contributions and is called Untaxed as it is paid from the Australian Government's Consolidated Revenue Fund. This component of your pension is taxed as per the ATO tax schedules less the 10% tax offset after the age of 60. This offset is limited due to the Defined Benefit Income Cap This is called the Untaxed element on your payment summary.

What are marginal tax rates?

Marginal tax rate is the term used to describe the method of taxation withholding. Withholding rates are calculated on the basis that your pay and circumstances remain consistent throughout the year. This system is called pay as you go (PAYG) withholding. For further information, see ato.gov.au

How is my pension taxed?

The table below outlines the method of withholding.

Age	Tax–free component	Untaxed component
Under 55	You pay 0% tax	Your Marginal Tax Rate
55–59	You pay 0% tax	Your Marginal Tax Rate
60 and over*	You pay 0% tax	Your Marginal Tax Rate less a 10% offset

* Concessional tax treatment will be capped if your pension exceeds the Defined Benefit Income Cap. For more information visit ato.gov.au

For more information please see the Transfer Balance Cap information on our website (csc.gov.au/Members/Retirement/Pensioners/Transfer-Balance-Cap).

What tax concessions are available?

- A 10% tax offset on the Untaxed component of a pension paid to pensioners aged 60 and over

and

- a tax–free amount.

10% tax offset

After the age of 60 the Untaxed component of your pension will be taxed at your Marginal Tax Rate, less the 10% tax offset every fortnight. The Untaxed component is your total pension less any tax–free amount. The offset is limited to the Defined Benefit Income Cap.

If eligible, this tax offset will automatically be applied to your pension fortnightly. If you would like to claim this offset as part of your annual tax return (instead of in your fortnightly pension) you will need to tell us in writing.

If you are receiving a Reversionary pension and your late spouse was over 60 you are eligible for the 10% tax offset on the Untaxed component of your pension **regardless of your age**.

Tax–free amount

You do not pay tax on the tax–free component of your pension at any time. At age 60, the Taxed component of your pension also becomes tax–free. The combined tax–free and taxed components are your new tax–free amount. The offset is limited to the Defined Benefit Income Cap.

What is a tax offset?

A tax offset is a reduction in your tax liability. Often a tax offset is described as a percentage (for example, an offset of 10% to a pension). It is different from a tax deduction which reduces your assessable income. This means you would deduct the $160 offset from the marginal tax rate applicable to your pension. If your fortnightly pension tax is $230, your tax liability would be $70.

Example - Age 60 and over:

If the untaxed component of your fortnightly pension is $1,600, the offset amount is 10% of the $1,600 which is $160.

Tax concession limits

From 1 July 2017, there are limits placed on the tax–free amount and 10% tax offset concessions if you receive Defined Benefit pensions in excess of the Defined Benefit Income Cap.

For more information about taxation matters, please contact the ATO on **13 10 20** or visit ato.gov.au

Where can I get more information?

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