



Superannuation contributions surcharge

The superannuation surcharge – overview

The Superannuation Contributions Surcharge was a tax on **surchargeable superannuation contributions**. The superannuation surcharge was abolished from July 2005. Any outstanding debts, however, are still required to be paid.

Interest on the surcharge debt

Any surcharge debt amount remaining at the end of a financial year will be charged interest at the 30 June 10 year Treasury bond rate. To avoid the imposition of a full year's interest on the surcharge debt in a particular financial year, the payment must be received by us before the close of business on 30 June that year.

If you wish to make a payment, in full or part, it should be sent directly to us by way of a **Surcharge Remittance Advice form (SUR-DM1)**. This form can be downloaded from the CSC website. Alternatively you can attach to the payment a note that clearly states your full name, address, service number, scheme membership (DFRDB), and that the payment is to be credited to your surcharge account.

Payment of the surcharge debt

Any surcharge debt can be paid in full or part progressively during your period of membership, or left to accrue with interest. Any surcharge debt remaining when a benefit becomes payable, whether in cash or by transfer/rollover to another fund, **will be deducted from your DFRDB lump sum productivity benefit before payment**.

You have a right to elect that it be applied to the DFRDB benefit instead. In this case, the surcharge debt can be deducted from either the commutation payment or residual retirement pay.

Payment of surcharge debt from pension

Where a surcharge debt is recovered from retirement or invalidity pay, this is done by converting the surcharge debt to an annual reduction amount, and reducing pension by that amount.



Defence Force
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Benefits Scheme

The annual reduction amount is determined by dividing the lump sum surcharge debt by a DFRDB pension surcharge reduction factor as shown in the table of factors below.

Example – payment of surcharge debt from DFRDB retirement pay	
Surcharge debt amount	\$10,000
Age in completed years at date of commencement of pension	50
Retirement pay per year before reduction	\$50,000
Calculation of pension reduction amount	
$\frac{\$10,000}{24} = \416.67	-\$416.67
Retirement pay payable after reduction	\$49,583.33

DFRDB scheme – pension surcharge reduction factors			
Age at last birthday prior to start of pension	Conversion factor	Age at last birthday prior to start of pension	Conversion factor
15	25.8	43	24.6
16	25.8	44	24.6
17	25.8	45	24.5
18	25.8	46	24.4
19	25.7	47	24.3
20	25.7	48	24.2
21	25.7	49	24.1
22	25.7	50	24.0
23	25.6	51	23.9
24	25.6	52	23.8
25	25.6	53	23.7
26	25.5	54	23.6
27	25.5	55	23.3
28	25.5	56	22.8
29	25.4	57	22.3
30	25.4	58	21.9
31	25.4	59	21.4
32	25.3	60	20.9
33	25.3	61	20.4
34	25.2	62	19.8
35	25.2	63	19.3
36	25.1	64	18.8
37	25.1	65	18.3
38	25.0	66	17.7
39	24.9	67	17.2
40	24.9	68	16.6
41	24.8	69	16.1
42	24.7	70	15.5

Future pension adjustment

Once the pension reduction amount is subtracted from the initial amount of your pension, the remaining indexed portion of pension will be indexed on the first pension payday in January and July each year.

The reduction applies for the full duration of the pension, including any reversionary pension payable to a spouse or child. That is, the pension is not increased if it continues beyond the period of the surcharge reduction factor (24 years in the preceding example).

Payment from a before tax amount

As the benefit is reduced by the surcharge debt amount before it becomes payable, the amount applied to pay the debt does not form part of taxable income, and is not subject to the tax that would otherwise apply to the pension or lump sum. In other words, the payment is made from a before tax amount.

Surcharge debt assessment received after benefit paid

If a surcharge debt assessment is received by us after your benefit has been paid, it will be referred back to the Australian Tax Office (ATO). The ATO will either reissue the assessment to the new provider where the benefit has been rolled over to another fund or, where all superannuation entitlements have been paid out, the assessment will be issued to you for payment direct to the ATO.

Benefit preserved in DFRDB

A benefit that is preserved in DFRDB will not be subject to any further surchargeable contributions assessment; however, any surcharge debt remaining at 30 June each year the benefit is preserved will be charged interest.

Commonwealth Superannuation Corporation (CSC) may vary surcharge debt amount

If you have a surcharge debt at the time benefits become payable, we must determine the surcharge deduction amount that is fair and reasonable.

This means that we may vary the surcharge debt amount when benefits become payable. The legislation specifies that we must take certain matters into account in making such a determination. In particular, the legislation specifies that the surcharge debt amount cannot be more than 15 per cent of the employer-financed component of the benefit accrued since 20 August 1996.

We have issued guidelines to the effect that the surcharge deduction amount will ordinarily be the same as the amount of the surcharge debt (that is, the surcharge amount already assessed by the ATO is the correct amount) unless:

- in special circumstances relating to the retiree, deduction of that amount would cause the retiree to suffer an unfair or unreasonable financial detriment

or

- the amount of the surcharge debt was based on an incorrect calculation of surchargeable contributions.

It is anticipated that we will vary the surcharge debt amount in most cases where a DFRDB member is not entitled to a retirement pay (pension) benefit but is limited to a refund benefit following age retirement, resignation, redundancy, or Class C invalidity retirement, before 20 years' effective service, or less than 15 years' effective service where the member has reached the retiring age for the rank held, or where a member dies without dependants.

A surcharge debt amount can only be varied if a member has a surcharge debt at the time benefits become payable. If a surcharge debt is paid before benefits become payable we cannot alter the surcharge debt amount.

If a surcharge debt amount is paid in full before benefits become payable and we would have subsequently reduced the amount of the debt had it not been paid, a refund of the difference between the amount paid and what would have been the new debt cannot be claimed from the ATO.

If you are in this situation and wish to pay your surcharge debt during your period of membership, you are strongly advised to contact us before any payment is made, to enable us to ensure that you are fully aware of the possible implications.

Financial considerations on reducing the debt

You need to consider your own financial situation when deciding whether to pay any surcharge debt progressively as it arises, or leave the debt until the benefit becomes payable, and then, whether it may be preferable to have the debt deducted from the DFRDB benefit due or paid from other sources.

As with most financial considerations, every case is different and it is necessary to analyse the alternatives in the light of your own particular circumstances, and, if appropriate, seek professional advice.

Who pays the debt if my benefit is split under Family Law?

The full amount of any outstanding surcharge debt is deducted from your share of the benefit. It is not apportioned between your benefit and the non-member spouse benefit.

What happens if I have a debt assessed after my benefit has been paid?

Surcharge assessments can be made 18 months to two years after you leave the service. If this occurs you will be required to pay the full debt amount to the ATO.

Enquiries

The ATO is the primary point of contact for enquiries on the superannuation contributions surcharge and related matters. The ATO superannuation helpline is **13 10 20** for the cost of a local call.

If you have an inquiry about our administration of the surcharge, you can call us on **1300 001 677**. Alternatively, you can email your inquiries to us at members@dfrdb.gov.au

How can I get more information?



EMAIL members@dfrdb.gov.au

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