



# Tax and your ADF Cover benefit

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## How are pensions taxed?

If you receive a pension benefit from ADF Cover it will be comprised entirely of Taxable Untaxed component and marginal tax rates will be applied to the whole amount.

## 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, if your pay and circumstances remain consistent throughout the year, you may be entitled to a small refund when you complete your tax return at the end of the financial year. This system is called Pay As You Go (PAYG) withholding.

## What you need to know

Under current tax law, your benefits from ADF Cover are subject to tax if withdrawn as a lump sum or pension. As ADF Cover benefits come from consolidated revenue, this money has not been taxed previously therefore needs to be taxed when the benefit is payable.



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## What is a Tax Offset?

A tax offset is a reduction in your tax liability. Often a tax offset is described as a percentage. It is different from a tax deduction, which reduces your assessable income.

A 10% offset is available on your ADF Cover pension if you are:

- Aged 60 or over, we will automatically apply this 10% offset to your fortnightly pension when you turn 60 unless you advise us you do not wish to claim the offset.
- A reversionary pension recipient (regardless of age), and your late spouse was over 60, you are eligible for the 10% offset on the pension.

### Tax Offset example Age 60 and over

If the value of your fortnightly pension is \$1,600, the offset amount is 10% of the \$1600 which is \$160. In line with the PAYG tax tables, and assuming you elect to claim the Tax Free Threshold, you would pay \$226 in tax per fortnight before the offset is applied. You then deduct the offset amount of \$160 from the amount of tax applicable based on your marginal tax rate ie  $\$226 - \$160 = \$66$ .

**Tax liability for that fortnight would now be \$66.**

## How are lump sums taxed?

If you receive a lump sum benefit from ADF Cover, the benefit will be taxed in line with the following table.

Scenario	Component subject to PAYG withholding	Rate of withholding (excluding Medicare levy)
Lump sum death benefit paid to non-dependants	Whole amount	30%
Lump sum death benefits paid to dependants	None	0%
Member below preservation age	Amount up to untaxed cap	30%
	Amount above untaxed cap	45%
Member preservation age to age 59	Amount up to low rate cap	15%
	Amount above untaxed cap	30%
Member age 60 and above	Amount to untaxed plan cap	15%
	Amount above untaxed plan cap	45%

Note: The current Medicare levy will be deducted on top of the rate of withholding in the table above.

## Preservation age

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From July 1964	60

## How is an Estate benefit taxed?

Estate benefits paid from ADF Cover are not taxed; however the estate may be liable for tax. Before distributing any proceeds from an estate payment you should contact the ATO to ascertain the Estate's taxation liability.

## Payment summaries

We produce the following payment summaries for lump sum and pension recipients:

### PAYG Payment Summary – Superannuation lump sum

This document sets out the tax details of a lump sum payment. The lump sum payment summary is produced and posted to the recipient at the time the payment is made.

### PAYG Payment Summary – Pension payment

Pension recipients will receive their payment summary detailing the tax details of their pension payment at the end of the financial year.

## Supplying your Tax File Number (TFN)

We are authorised to collect your TFN under the Superannuation Industry (Supervision) Act 1993 Act. You do not have to supply it, but if you do not give it to us, benefits paid to you may be subject to a higher rate of tax (if you later supply your TFN, you may reclaim the additional tax from the ATO).

### How can I get more information

We strongly recommend you refer to the ATO website for more information and seek advice on the tax of your ADF Cover benefits from a licensed professional, such as a financial planner or an accountant.

For further detailed information on taxation matters visit the Australian Tax Office (ATO) website [ato.gov.au/super](http://ato.gov.au/super) or phone the ATO on **13 10 20** for the cost of a local call.



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