

FACTS ABOUT THE SUPERANNUATION SURCHARGE TAX

1. The superannuation contributions surcharge tax is a Commonwealth Government tax on employer contributions to superannuation funds for high-income earners. From 1 July 2003 the surcharge rate has been reduced incrementally by government legislation as follows:

| Financial Year | Surcharge Tax Rate |
|--------------------|--------------------|
| 1996 - 2003 | 15% |
| 2003-04 | 14.50% |
| 2004-05 | 12.50% |
| 2005-06 and beyond | 10% |

2. High income earners are those individuals with an “adjusted taxable income” above the minimum surcharge threshold. This represents annual income from all sources less deductions plus all employer and any tax deductible personal superannuation contributions. (See examples below.)
3. The surcharge tax rate commences at an adjusted taxable income above the minimum threshold and increases by 0.001 per cent for each dollar of adjusted taxable income above the threshold until it reaches the maximum surcharge for adjusted taxable incomes of over the maximum threshold. The surcharge thresholds increase each year to movements in Average Weekly Ordinary Times Earnings (AWOTE). The thresholds for surcharge purposes are indexed annually. The table below sets out these thresholds:

| Year | Minimum threshold | Maximum threshold | Denominator |
|---------|-------------------|-------------------|-------------|
| 1996/97 | \$70,000 | \$85,000 | \$1,000 |
| 1997/98 | \$73,220 | \$88,910 | \$1,046 |
| 1998/99 | \$75,856 | \$92,111 | \$1,084 |
| 1999/00 | \$78,208 | \$94,966 | \$1,118 |
| 2000/01 | \$81,493 | \$98,955 | \$1,165 |
| 2001/02 | \$85,242 | \$103,507 | \$1,219 |
| 2002/03 | \$90,527 | \$109,924 | \$1,295 |
| 2003/04 | \$94,691 | \$114,981 | \$1,399.31 |
| 2004/05 | \$99,710 | \$121,075 | \$1,709.20 |

- 4 The rate of surcharge depends on your adjusted taxable income and is calculated using the following formula:

$$\frac{\text{Adjusted Taxable Income} - \text{Surcharge Threshold}}{\text{Denominator}}$$

Where:

- **Adjusted Taxable Income** is your taxable income plus your total surchargeable contributions plus your reportable fringe benefits total.
 - **Surcharge Threshold** - refer to table on previous page for the minimum and maximum thresholds.
 - **Denominator** - refer to table on previous page for the denominator.
- 5 Under surcharge legislation, annual employer contributions are termed “surchargeable contributions”. Salary Sacrifice contributions are deemed employer contributions and are included in the “surchargeable contributions”.
- 6 For members in defined benefit superannuation funds, such as the Territory’s public sector funds, the NTGPASS and NTSSS, employer superannuation contributions are unable to be determined until a member exits the scheme. The surcharge legislation therefore provides that for members in defined benefit funds surchargeable contributions are calculated by applying the Notional Surchargeable Contribution Factor determined by the scheme’s actuary to the member’s annual salary.
- 7 Superannuation funds are required to report details of each member’s notional surchargeable contributions (irrespective of their salary), each financial year to the Australian Taxation Office.
- 8 Superannuation Funds advise details of each member’s notional surchargeable contributions in their annual Member Information Statement.
- 9 The ATO utilises the surcharge information received from superannuation funds to match this with each member’s tax file numbers to their annual tax return. The ATO calculates the individuals “adjusted taxable income” based on this information and then applies the surcharge tax if applicable.
- 10 If a member’s adjusted taxable income is more than the minimum threshold, the ATO calculates the member’s surcharge liability by applying the relevant surcharge tax rate to the member’s surchargeable contributions.
11. The ATO sends surcharge assessments to those members who are liable for the tax. The superannuation fund is also provided with details of the member’s surcharge debt. For members of the Territory public sector schemes, ATO surcharge assessments in respect of each financial year are generally received in October of that year. (Members of CSS will be advised by CSS). Any surcharge debt for the financial year is advised to the member in the annual Member Information Statement.

12. Members of the Territory public sector funds who have a surcharge debt have the option of either :
- making payments against their surcharge liability to the NTSO at any time; or
 - deferring some or all their debt until they cease membership from their scheme and receive a benefit entitlement from which the accrued surcharge debt will be deducted .
- 13 Commonwealth legislation provides that surcharge assessments which remain unpaid at 30 June each year will have interest applied to the outstanding liability at the Commonwealth's ten year treasury bond rate applicable on 30 June of that year. The table below shows the 10 year Treasury bond rate history for previous years:

| As at | 10 Year Treasury Bond Rate |
|--------------|-------------------------------|
| 30 June 1997 | 7.05% |
| 30 June 1998 | 5.58% |
| 30 June 1999 | 6.27% |
| 30 June 2000 | 6.16% |
| 30 June 2001 | 6.04% |
| 30 June 2002 | 5.99% |
| 30 June 2003 | 5.01% |
| 30 June 2004 | 5.87% |

- 13 Members who have a surcharge liability should seek financial advice on the most tax effective method of paying their surcharge liability.
- 14 Queries and complaints regarding the determination of a member's "adjusted taxable income" should be directed to the ATO Superannuation Hotline on 131020.

Any Further Questions?

The ATO web site at www.ato.gov.au/super has a page dedicated to questions and answers regarding Superannuation Surcharge. From the ATO home page select the **Superannuation Topics** and then the **Superannuation Surcharge** tab.

EXAMPLES OF "SURCHARGE" LIABILITY – FOR 2004-05 FINANCIAL YEAR

| | |
|--|-----------------------|
| Employee A | \$ |
| Income (all sources) | 53,000 |
| Less: Deductions | <u>1,500</u> |
| = Taxable Income | 51,500 |
| Plus: Surchargeable Superannuation Contributions | <u>6,000</u> |
| = Adjusted Taxable Income | <u><u>57,500</u></u> |
| Under \$99,710 no surcharge payable | |
| <hr/> | |
| Employee B | \$ |
| Income (all sources) | 98,710 |
| Less: Deductions | <u>2,000</u> |
| = Taxable Income | 96,710 |
| Plus: Surchargeable Superannuation Contributions | <u>8,000</u> |
| = Adjusted Taxable Income (ATI) | <u><u>104,710</u></u> |
| Excess over 99,710 threshold = \$5,000 / \$1,709.20 = 2.93% | |
| Formula = ATI – threshold / Denominator Amount | |
| 2.93% of surchargeable contributions (ie \$8,000) = \$234.40 surcharge tax | |
| <hr/> | |
| Employee C | \$ |
| Income (all sources) | 140,075 |
| Less: Deductions | <u>6,000</u> |
| = Taxable Income | 134,075 |
| Plus: Surchargeable Superannuation Contributions | <u>10,000</u> |
| = Adjusted Taxable Income (ATI) | <u><u>144,075</u></u> |
| Excess over \$121,075 threshold = 12.50% | |
| 12.50% maximum surcharge rate (ie \$10,000) = \$1,250 surcharge tax | |