



# Taxation offsets for pensions

## What is in this factsheet?

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

- What is a tax offset?
- What components make up my pension?
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- What is a tax offset?

A tax offset is a reduction in the amount of tax that you pay. Often a tax offset is described as a percentage (for example a tax offset of 10% to a pension). It is different from a tax deduction, which may reduce your assessable income.

## 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 pay no tax on the tax-free component of your pension.

## 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.



Defence Force  
Retirement & Death  
Benefits Scheme

## Taxed component

You may have a taxed component of your pension if you retired prior to 1994. At age 60, your taxed component will automatically become tax-free. This is called the Taxed element on your annual payment summary.

## Untaxed component

This component consists of your 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 Australian Taxation Office (ATO) tax schedules less the 10% tax offset after the age of 60. From 1 July 2017, this offset is limited to \$100,000. 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](http://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

\* Subject to tax concession limits from 1 July 2017.

## 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 a \$100,000 total pension.

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 a \$100,000 total pension.

## 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 \$100,000 pa.

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

### How can I get more information?



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