Notional Taxed Contribution (NTC) rates for DBD members

IMPORTANT NOTE
The government has announced that from 1 July 2012, the concessional contribution cap for those who are aged 50 years or older with a super balance of less than $500,000 will be set at $25,000 above the ‘general’ concessional cap. The general concessional cap for members under 50 years of age is currently $25,000 per annum.

From 1 July 2012, if the general concessional cap is $25,000 for the relevant financial year, the concessional contribution cap for eligible members aged 50 and over would be $50,000.

Please note that this announcement had not been enacted as law on the date this fact sheet was issued.

What this fact sheet does
Explains the how to calculate your Notional Taxed Contribution (NTC) rate and some of the rules and restrictions around before-tax (concessional) contributions.

Who it is for?
UniSuper’s Defined Benefit Division (DBD) members, except those who transferred to UniSuper from the Walter and Eliza Hall Institute of Medical Research fund (former WEHI Members).

Background
The concessional contribution cap for the 2011/12 financial year is $25,000 for members under the age of 50, and $50,000 for members aged 50 or over at any time in the financial year.

The concessional contribution cap limits the amount of concessional contributions (including employer and salary sacrifice contributions) that can be made to a member’s superannuation account each financial year before hefty taxes apply.

For Defined Benefit Division (DBD) members, rather than use the actual employer and salary sacrifice contributions made to the DBD during a given financial year to calculate whether the concessional contribution cap has been reached, Notional Taxed Contribution (NTC) rates are used.

In general terms, the approach used to calculate the NTC rates is of considerable benefit to DBD members. This is because the calculated NTC rates are generally lower than the actual level of employer contributions and standard employee contributions via salary sacrifice that are made into the DBD on a member’s behalf.

This means that there may be more scope for DBD members to ‘top up’ their contributions before they reach the annual cap.

The extent of this benefit, however, varies between different sub-groups of DBD members, owing to the way the government has constructed the NTC formula.

It is also important to note that the NTC rate applies only to ‘concessional’ (before-tax) contributions made directly to a member’s defined benefit component – that is, the combination of employer contributions and member salary sacrifice contributions. It does not extend to the accumulation component. This means that the 3% additional employer contribution that applies to most DBD members and/or any additional voluntary contributions being made via salary sacrifice are calculated outside of the NTC formula. These are then added to the amount of NTCs to determine the total amount of concessional contributions for that member.
Assessing the Notional Contributions

Determining the Notional Taxed Contribution amount for members is essentially a two-step process.

1. Calculate the ‘NTC new entrant rate’

The UniSuper actuary has calculated a ‘new entrant rate’ for each ‘NTC category’ of membership in the UniSuper DBD. These categories are determined by the date the member joined the Fund and groupings of the selected member contribution rates.

<table>
<thead>
<tr>
<th>Membership Description</th>
<th>NTC New Entrant Rate</th>
</tr>
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<tbody>
<tr>
<td>Joined before 1 July 1998</td>
<td></td>
</tr>
<tr>
<td>17% Employer Contribution rate to the DBD</td>
<td></td>
</tr>
<tr>
<td>0% Member Contribution rate</td>
<td>10%</td>
</tr>
<tr>
<td>1% Member Contribution rate</td>
<td>10%</td>
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<tr>
<td>2% Member Contribution rate</td>
<td>11%</td>
</tr>
<tr>
<td>3% Member Contribution rate</td>
<td>12%</td>
</tr>
<tr>
<td>4% Member Contribution rate</td>
<td>13%</td>
</tr>
<tr>
<td>4.45% Member Contribution rate</td>
<td>13%</td>
</tr>
<tr>
<td>Half Contributions</td>
<td>6%</td>
</tr>
<tr>
<td>14% Employer Contribution rate to the DBD</td>
<td></td>
</tr>
<tr>
<td>2.55% Member Contribution rate</td>
<td>10%</td>
</tr>
<tr>
<td>3.55% Member Contribution rate</td>
<td>10%</td>
</tr>
<tr>
<td>4.55% Member Contribution rate</td>
<td>11%</td>
</tr>
<tr>
<td>5.55% Member Contribution rate</td>
<td>12%</td>
</tr>
<tr>
<td>6.55% Member Contribution rate</td>
<td>13%</td>
</tr>
<tr>
<td>7% Member Contribution rate</td>
<td>13%</td>
</tr>
</tbody>
</table>

2. Calculating the annual ‘NTC amount’

To calculate the annual NTC amount for a member, (i.e. the amount that counts towards the concessional contribution cap), the applicable NTC new entrant rate is effectively multiplied by 1.2. It is this NTC amount, together with any other concessional contributions made to the accumulation component, which is reported to the ATO and compared to the concessional contribution cap. The formula is provided below:

\[
1.2 \times \left( \text{New entrant rate} \times \frac{\text{superannuation salary at start of financial year adjusted for any periods of part-time work}}{365} \times \text{days in NTC category} \right) - \text{any after-tax contributions made to the DBD component}
\]
Example 1

Assume a 40-year old UniSuper member joined the Defined Benefit Division on 1 July 1998. Their employer is currently making 17% employer contributions (14% to the DBD and 3% additional employer contributions to an accumulation component) and they are salary sacrificing the maximum standard member contribution. They are employed full-time for the entire financial year and on 1 July 2011 they had a superannuable salary of $100,000 p.a.

Looking at the above table, we can see that their NTC new entrant rate works out to 14%. (14% employer contribution plus 7% member contribution).

To calculate the NTC amount of this member for 2010/11:

\[
1.2 \times (14\% \times 100,000 \times \frac{365 \text{ days in NTC category}}{365}) = 16,800
\]

As the member has salary sacrificed the maximum member contribution, there can be no after-tax contributions being made to the defined benefit component on their behalf that can be deducted as part of the formula.

It's important to remember that the 3% additional employer contribution made to the accumulation component MUST be added onto this figure in order to calculate the member's total concessional contribution to UniSuper for the year.

In this case the member's total concessional contribution reported to the ATO for 2011/12 would be:

\[
16,800 + 3,000 = 19,800
\]

This enables the 40-year old member to salary sacrifice an additional $5,200 before reaching their concessional contribution cap.

Of course, if the member was aged 50 or over, then their concessional contribution cap threshold would be $50,000 for the 2011/12 financial year. This would mean that they had capacity to salary sacrifice an additional $30,200 in 2011/12 without breaching the cap. These calculations assume that no concessional contributions are made by the member to another superannuation fund.

As shown by the example, the NTC new entrant rate and the resultant NTC amounts are both lower than the level of actual concessional contributions received. This is due to the nature of the government prescribed formula for calculating the NTC amount and takes into account discounts applied as part of that formula.

The good news is that the application of the formula in no way affects the level of members' existing or future benefits. However it does allow Defined Benefit Division members to make potentially higher levels of concessional contributions (salary sacrifice) without breaching the annual cap.

**Special arrangements for DBD members who joined UniSuper before 12 May 2009**

For members who were in UniSuper’s DBD on 12 May 2009 some further special arrangements may apply when determining the NTC amount for their defined benefit component.

These special arrangements mean that in instances where a member’s NTC amount exceeds the relevant concessional contribution cap (i.e. $25,000 for those under 50, and $50,000 for those aged 50 or over), simply because the standard employer and salary sacrifice member contributions to the DBD push them above this level, then the NTC amount for these members is deemed to be at their cap and no additional tax is payable on their DBD component.

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**Example**

Assume a member joined the DBD before 12 May 2009. They have an annual superannuable salary of $300,000 on 1 July 2011, and elect to salary sacrifice the maximum member contribution.

For this member the following calculation would apply for the 2011/12 financial tax year:

\[
1.2 \times (14\% \times 300,000) = 50,400
\]

Although the member has an NTC amount equivalent to $50,400, the special arrangement effectively resets this amount to either the $25,000 or $50,000 concessional contribution cap threshold (depending on the member’s age) so that no excess contribution tax is payable on any of the DBD component, including the portion above the member's relevant concessional contribution limit.

It is important to remember, however, that any additional concessional contributions made into the member’s accumulation component (e.g. the 3% additional employer contribution and/or any voluntary salary sacrifice contributions) are not covered by this special arrangement and will still be subject to additional tax.
So extending the above example, this would mean that if the member was also receiving the 3% additional employer contribution, although the extra amount to the DBD would be exempt, the member would still be liable to pay an extra 31.5% tax on the $9,000 paid into their accumulation component.

**Contribution Flexibility and the NTC special arrangement**

Defined Benefit Division members may still choose to exercise contribution flexibility without it affecting the special arrangement outlined above.

This is because if a member subsequently wishes to increase their member contributions they are only able to do so via additional contributions to their accumulation component. These contributions will therefore be calculated outside the NTC formula and added to the amount of notional taxed contributions to determine the total amount of concessional contributions for that member.

**Summary**

The implementation of NTCs is a complex issue and there are a range of variable factors to take into account in determining the NTC amount for each individual member. The NTC amount only forms part of the total contributions reported to the Australian Taxation Office. The 3% accumulation component, plus any salary sacrifice contributions made in addition to the standard member contributions, are both added to the NTC.

If you are concerned about how it affects you, please call UniSuper or seek independent financial advice before making any decisions in relation to your superannuation.