



Taxation Administration Act

Variation to the rate of withholding for certain superannuation income stream beneficiaries who turn 60 during the financial year – No. 2

I, Erin Kathleen Holland, Deputy Commissioner of Taxation, make this instrument under section 15-15 of Schedule 1 to the *Taxation Administration Act 1953*.

Dated: 21 August 2007

A handwritten signature in black ink, appearing to read 'Erin Holland'.

Deputy Commissioner of Taxation

1 Name of instrument

This instrument is the *Taxation Administration Act - Variation to the rate of withholding for certain superannuation income stream beneficiaries who turn 60 during the financial year - No. 2*

2 Commencement

This instrument commences on 1 September 2007.

3 Purpose

To revoke the previously registered legislative instrument *Taxation Administration Act - Variation to the rate of withholding for certain superannuation income stream beneficiaries who turn 60 during the financial year* (FRLI instrument: F2007L01787).

Payments from a taxed source made to a superannuation beneficiary who has turned 60 years of age are categorised as non-assessable non-exempt income (that is, tax free). Prior to the age of 60, withholding from superannuation income streams is calculated according to the relevant withholding schedule (NAT 70982) made under section 15-25 of Schedule 1 to the *Taxation Administration Act 1953*.

Using that schedule would potentially cause excessive amounts to be withheld from payments made in the financial year in which a payee turns 60, for payments made in the period prior to the payee's birthday.

This new variation replaces the amount required to be withheld from these payments to an amount which more accurately matches the tax which will ultimately be payable on that income.

4 Variation to the rate of withholding

This variation applies to the taxable component of payments that:

- are superannuation income streams covered by paragraph 12-80(a) of Schedule 1 to the *Taxation Administration Act 1953*
- consist of a taxed element only, and
- are paid to a payee who is aged 59 years, in the financial year in which that payee's 60th birthday occurs,

The amount to be withheld from the taxable component of these payments is the amount calculated using the following rules.

RULES FOR CALCULATING VARIED WITHHOLDING AMOUNT

Step 1

Calculate the amount of assessable income the payee will receive before their 60th birthday.

Assessable income before 60th birthday = (taxable component of the payment x number of payments before 60th birthday)

where:

- the taxable component of a superannuation income stream benefit is the amount of the income stream minus the tax free component of the benefit, and
- the number of payments before 60th birthday is the number of payments expected to be made to the payee between 1 July and their 60th birthday.

Step 2

Turn the *Assessable income before 60th birthday* (Step 1) into an average payment per pay period, as if spread over whole year.

Assessable income before 60th birthday / total number of payments in the year

Total number of payments made for the year:

- 52, for payments made weekly
- 26, for payments made fortnightly, and
- 12, for payments made monthly.

The result is the payee's *adjusted average payment*.

Step 3

Convert the *adjusted average payment* calculated in *Step 2* to its weekly equivalent. Where the payments are made weekly, simply ignore any cents and add 99 cents.

If the payments are made fortnightly or monthly, calculate the weekly equivalent using the following:

- fortnightly payments - divide the sum of the fortnightly payment by two. Ignore any cents in the result and then add 99 cents.

or

- monthly payments - multiply the monthly payment by 3 and then divide by 13. Ignore any cents in the result and then add 99 cents.

Step 4

Calculate the withholding amount on the figure calculated in *Step 3*, using the appropriate formula from *Statement of formulas for calculating amounts to be withheld* (NAT 1004) or using the tables in *Weekly tax table* (NAT 1005).

If the payments are made fortnightly or monthly, calculate the withholding amounts using the following:

- fortnightly payments – determine the weekly withholding. Multiply this amount by two.

or

- monthly payments – determine the weekly withholding. Multiply this amount by 13, divide the product by 3.

Round the result to the nearest dollar.

Step 5

Adjust the amount calculated in *Step 4* for the number of payments made before the payee's 60th birthday.

$$\begin{array}{l} \text{Adjusted} \\ \text{withholding} \\ \text{amount} \end{array} = \text{withholding amount (Step 4)} \times \frac{\text{total number of payments in year}}{\text{number of payments before 60}^{\text{th}} \text{ birthday}}$$

Round the result to the nearest dollar.

Step 6

Calculate the superannuation tax offset applicable to the payment.

Taxable component of the payment x 15% = *superannuation tax offset*

Round the result to the nearest dollar.

Step 7

Calculate the *notional amount to be withheld* per payment.

$$\text{Notional amount to be withheld} = \text{Adjusted withholding amount (Step 5)} - \text{superannuation tax offset (Step 6)}$$

Round the result to the nearest dollar.

Note: If the *superannuation tax offset* is greater than the *adjusted withholding amount*, the *notional amount to be withheld* is nil.

Step 8

Using the appropriate formula below, calculate the *Medicare levy adjustment* applicable to the payment.

If the payee's *assessable income before 60th birthday* (Step 1) is:

- **less than \$16,740** – the payee's *Medicare levy adjustment* is nil.
- **greater than \$16,739 but less than \$19,694** – the payee's *Medicare levy adjustment* is equal to:

$$(\text{assessable income before 60}^{\text{th}} \text{ birthday} - \$16,740) \times 0.10 / \text{number of payments before 60}^{\text{th}} \text{ birthday}.$$
- **Greater than \$19,693** – the payee's *Medicare levy adjustment* is equal to:

$$(\text{assessable income before 60}^{\text{th}} \text{ birthday} \times 0.015) / \text{number of payments before 60}^{\text{th}} \text{ birthday}$$

Round the result to the nearest dollar.

Step 9

To calculate the varied withholding amount, compare the *notional amount to be withheld* (Step 7) to the *Medicare levy adjustment* (Step 8).

If the *notional amount to be withheld* is **more than** the *Medicare levy adjustment*, withhold the *notional amount to be withheld* (Step 7).

If the *notional amount to be withheld* is **less than** the *Medicare levy adjustment*, withhold the *Medicare levy adjustment* (Step 8).

ALTERNATIVE LOOK UP TABLE

As an alternative to calculating the varied withholding amount using the rules above, the Tax Office has published look up tables (NAT 71173) providing the relevant amounts by which to reduce the withholding amounts calculated in *Tax table for superannuation income streams* (NAT 70982).

EXAMPLE CALCULATIONS:

Example 1

Tony is 58 years old and receives a monthly superannuation income stream that contains a taxable component. Tony will not have any variation in his withholding, as he does not turn 60 during this financial year.

Example 2

Sally is 59 years old and receives a fortnightly superannuation income stream of \$2,000 during the 2007-08 financial year.

The tax free component of Sally's fortnightly superannuation income stream is \$440. The taxable component of the superannuation income stream is \$1,560, and is comprised wholly of a taxed element.

Sally will turn 60 on 8 January 2008. Her super fund will make 14 payments before she turns 60 and 12 payments after.

As the taxable component of Sally's pension is comprised wholly of a taxed element she will not have to pay any tax on this after she turns 60. Sally's withholding should be varied. Sally has claimed the tax-free threshold and is not entitled to leave loading.

Calculate the varied withholding amount

Step 1

Calculate Sally's assessable income before her 60th birthday.

Assessable income before 60th birthday: $\$1,560 \times 14 = \$21,840$

Step 2

Convert the amount calculated at *Step 1* into an *adjusted average payment*.

Adjusted average payment: $\$21,840 / 26 = \840.00

Step 3

Calculate Sally's adjusted weekly payment amount.

Sally's adjusted weekly amount: $\$840.00 / 2$
 $= \$420.99$ (ignoring cents, adding 0.99)

Step 4

Calculate the withholding on the amount calculated at *Step 3*.

Weekly withholding = $\$420.99 \times 0.1650 - 16.7310$
 = $\$52.7324$
 = $\$53$ per week (rounded to the nearest dollar)

Fortnightly withholding: $\$53 \times 2 = \106 per fortnight

Step 5

Calculate Sally's *adjusted withholding amount* based on the amount calculated at *Step 4*.

Adjusted withholding = $\$106 \times 26 / 14$
 = $\$196.8571$
 = $\$197$ per fortnight (rounded to the nearest dollar)

Step 6

Calculate the per payment *superannuation tax offset* Sally is entitled to. This is calculated using the taxable component of her payment.

Superannuation tax offset: $\$1,560 \times 15\% = \234.00 (rounded to the nearest dollar)

Step 7

Calculate the *notional amount to be withheld*.

As Sally's *superannuation tax offset* ($\$234$ – *Step 6*) is greater than her *adjusted withholding amount* ($\$197$ – *Step 5*) her *notional amount to be withheld* is $\$0$.

Step 8

Calculate Sally's *Medicare levy adjustment*.

As Sally's assessable income before her 60th birthday of $\$21,840$ (*Step 1*) is greater than $\$19,693$, her *Medicare levy adjustment* is:

$\$21,840 \times 0.015 / 14 = \23.00 (rounded to the nearest dollar)

Step 9

Calculate Sally's varied withholding amount.

As Sally's *Medicare levy adjustment* ($\$23$ – *Step 8*) is greater than her *notional amount to be withheld* ($\$0$ – *Step 7*), her varied withholding amount is **$\$23$** .

Example 3

Scott is 59 years old and receives a weekly superannuation income stream of $\$1,300$, during the 2007-08 financial year.

The tax free component of Scott's weekly superannuation income stream is $\$175$. The taxable component of the superannuation income stream is $\$1,125$. The taxable component is comprised wholly of a taxed element.

Scott will turn 60 on 21 April 2008. His superannuation fund will make 42 payments before his 60th birthday and 10 payments after.

As the taxable component of Scott's income stream is comprised wholly of a taxed element he will not have to pay any tax on this income after his 60th birthday. The amount to be withheld from each payment should be varied. Scott has claimed the tax-free threshold and is not entitled to leave loading.

Calculate the varied withholding amount

Step 1

Calculate Scott's assessable income paid before his 60th birthday.

Assessable income before 60th birthday: $\$1,125 \times 42 = \$47,250$

Step 2

Convert the amount calculated at *Step 1* into an *adjusted average payment*.

Adjusted average payment: $\$47,250 / 52 = \908.65

Step 3

Calculate Scott's *adjusted weekly payment* amount.

= \$908.99 (ignoring cents, adding 0.99)

Step 4

Calculate the withholding on Scott's *adjusted weekly payment* amount.

Weekly withholding = $\$908.99 \times 0.3150 = 103.2694$
 = \$183.0625
 = \$183 per week (rounded to the nearest dollar)

Step 5

Calculate Scott's *adjusted withholding amount* based on the amount calculated at *Step 4*.

Adjusted withholding = $\$183 \times 52 / 42$
 = \$226.5714
 = \$227 per week (rounded to the nearest dollar)

Step 6

Calculate the per payment *superannuation tax offset* that Scott is entitled to, based on the taxable component of his payment.

Superannuation tax offset: $\$1,125 \times 15\% = \169 (rounded to the nearest dollar)

Step 7

Calculate the *notional amount to be withheld*.

As Scott's *adjusted withholding amount* is greater than his *superannuation tax offset* then the *notional amount to be withheld* is:

Notional amount to be withheld = \$227 (Step 5) - \$169 (Step 6) = \$58

Step 8

Calculate Scott's *Medicare levy adjustment*.

As Scott's assessable income before his 60th birthday of \$47,250 (*Step 1*) is greater than \$19,693, his *Medicare levy adjustment* is:

$$\$47,250 \times 0.015 / 42 = \$17.00 \text{ (rounded to the nearest dollar)}$$

Step 9

Calculate Scott's *varied withholding amount*.

As Scott's *notional amount to be withheld* (\$58 – *Step 7*) is greater than his *Medicare levy adjustment* (\$17 – *Step 8*), his *varied withholding amount* is **\$58**.

Example 4

Brian is 59 years old and has just commenced receiving weekly superannuation income stream benefits of \$900. His first payment will be made on 6th September 2007.

The tax free component of Brian's weekly superannuation income stream benefit is \$115. The taxable component of the superannuation income stream is \$785. The taxable component is comprised wholly of a taxed element.

Brian will turn 60 on 3 February 2008. His super fund will make 22 payments before he turns 60 and 21 payments after.

As the taxable component of Brian's superannuation income stream is comprised wholly of a taxed element he will not have to pay any tax on this after he turns 60. The amount to be withheld from each payment should be varied. Brian has claimed the tax-free threshold and is not entitled to leave loading.

Calculate the adjusted withholding amount

Step 1

Calculate Brian's assessable income before his 60th birthday.

$$\text{Assessable income before 60}^{\text{th}} \text{ birthday: } \$785 \times 22 = \$17,270$$

Step 2

Convert the amount calculated at *Step 1* into an *adjusted average payment*.

$$\text{Adjusted average payment: } \$17,270 / 52 = \$332.12$$

Step 3

Calculate Brian's *adjusted weekly payment* amount.

$$= \$332.99 \text{ (ignoring cents, adding 0.99)}$$

Step 4

Calculate the withholding on Brian's *adjusted weekly payment* amount.

$$\begin{aligned} \text{Weekly withholding} &= \$332.99 \times 0.2500 = 83.2475 \\ &= \$34.3244 \end{aligned}$$

= \$34 per week (rounded to the nearest dollar)

Step 5

Calculate Brian's *adjusted withholding amount* based on the amount calculated at Step 4.

Adjusted withholding = \$34 x 52 / 22
 = \$80.3636
 = \$80 per week (rounded to the nearest dollar)

Step 6

Calculate the per payment *superannuation tax offset* Brian is entitled to, based on the taxable component of his payment.

Superannuation tax offset: \$785 x 15% = \$118.00 (rounded to the nearest dollar)

Step 7

Calculate the *notional amount to be withheld*.

As Brian's *superannuation tax offset* (\$118 – Step 6) is greater than his *adjusted withholding amount* (\$80 – Step 5) his *notional amount to be withheld* is \$0.

Step 8

Calculate Brian's *Medicare levy adjustment*.

As Brian's assessable income before his 60th birthday of \$17,270 (Step 1) is greater than \$16,739 but less than \$19,694, his *Medicare levy adjustment* is:

$(\$17,270 - \$16,740) \times 0.10 / 22 = \2.00 (rounded to the nearest dollar)

Step 9

Calculate Brian's *varied withholding amount*

As Brian's *Medicare levy adjustment* (\$2 – Step 8) is greater than his notional amount to be withheld (\$0 – Step 7), his *varied withholding amount* is **\$2**.