

Taxation of overseas super and pension transfers:

what you need to know

Before you transfer overseas retirement benefits to an Australian superannuation fund, you need to take account of the general contribution requirements and the special taxation treatment affecting overseas transfers.

Can I transfer an overseas super account or pension to Australia?

Generally, you can transfer overseas super and pension monies to an Australian super fund as a non-concessional (after tax) contribution. At the same time, you should ask your overseas super provider whether special restrictions or conditions apply in its country.

What are the benefits of transferring super and pension monies to an Australian fund?

Consolidating your superannuation monies within the Australian system can provide financial advantages, and at the same time, help simplify ongoing administration.

Tax-effective saving

Australia is recognised as a global leader in superannuation. Our government encourages Australians to save for their retirement through super by offering generous tax incentives including:

1. Maximum 15% tax on fund earnings – investment earnings outside super are typically taxed at your marginal tax rate, which can be significantly higher than the maximum 15% applied to superannuation earnings.
2. Tax free withdrawals after age 60 – you can withdraw your super tax free at age 60 or over, whether you take it as a lump sum or withdraw it gradually through a retirement income stream.¹
3. Low or no contributions tax – a concessional (pre-tax) contribution to super is taxed at 15%, while a non concessional (after tax) contribution is tax free when you contribute or withdraw (although earnings tax may be payable on the growth portion of those contributions). If your contribution exceeds the relevant contribution cap, however, the excess amount will be subject to excess tax of 31.5% for concessional contributions and 46.5% for non-concessional contributions (including Medicare levy).

For most people, these tax incentives make it more effective to save within the superannuation system than outside it. With the added power of compounding, the benefit of super may be magnified over the long term.

Simpler administration

In practical terms, managing an investment overseas can be time consuming and complicated by foreign tax laws, currency movements and different market and economic outlooks. Consolidating into an Australian fund lets you avoid these hassles and makes it easier to integrate super into your broader portfolio strategy.

What do I need to be aware of when making a contribution?

Whenever you make a super contribution, including a transfer from an overseas super fund, you must take into account the key requirements outlined below.

The work test

If you are under age 65 at the time you make a contribution to super there is no work test requirement. If you are age 65 or older, you must have been gainfully employed for at least 40 hours within 30 consecutive days in the financial year prior to making a contribution.²

Tax file number

An Australian super fund can only accept your non-concessional (after tax) contribution if you provide an Australian tax file number (TFN). If the fund has no TFN on record, it must return your contribution within 30 days.

Contribution caps

A transfer from an overseas super account is treated as a non-concessional (after tax) contribution. If you are under 65 in the financial year, non-concessional contributions are capped at \$150,000 in a single year or \$450,000 over three financial years.

If your contribution exceeds the non-concessional contribution cap, however, the excess amount will be subject to excess tax of 46.5% (including Medicare levy). Under the contribution rules, an Australian fund trustee must return any single transfer that exceeds the non-concessional cap within 30 days.

If you would like to transfer funds from an overseas super account, but are concerned about breaching the non-concessional cap, your financial adviser can set out the options available to you.

Will my overseas super fund tax me for transferring my super benefits to Australia?

Tax laws differ from country to country, so you should contact the overseas fund to see what laws apply to your super. Many countries impose a penalty tax on super withdrawals and transfers. In the United Kingdom for instance, a transfer from a registered pension scheme is subject to a penalty tax of at least 40% unless the Australian super fund is classified as a 'qualifying recognised overseas pension scheme' (QROPS).

Your financial adviser can work with a specialist taxation consultant to understand the taxation treatment in the relevant country and talk to you about the options for transferring super to Australia.

Does the length of tax residency in Australia make a difference?

Yes. Different rules apply depending on whether you transfer a benefit within six months of tax residency or later. Generally, a transfer made within six months of tax residency is not subject to Australian tax. Transfers of benefits after six months of tax residency may have applicable fund earnings which would be taxable³. For more details, see below.

Remember too, at any time, you must meet the work test, TFN and contribution cap requirements set out above. If your contribution exceeds the non-concessional contribution cap, the amount in excess of the cap will be subject to tax of 46.5% (including Medicare levy).

In all cases, the amount transferred will be preserved in your Australian fund until you meet a condition of release.

Payments made within six months of Australian residency

Overseas super payments (including fund-to-fund transfers and cash withdrawals) paid to you within six months of you becoming an Australian resident for tax purposes are not subject to tax in Australia.⁴ While the amount you transfer will form part of the tax-free component of your Australian super benefit, any earnings on that amount will form part of the taxable component of your super benefit and may be subject to tax if withdrawn before age 60.

Payments made six months or more after Australian residency

If you make the transfer when you have been an Australian resident for tax purposes for six months or longer, a part of the payment known as 'applicable fund earnings' will be assessable in Australia.

Applicable fund earnings is defined as the growth in the value of your overseas benefit from the date you became an Australian tax resident to the date of payment, and it applies to both direct transfers to an Australian super fund and any overseas super payment you receive in cash.

You may request in writing to have the applicable fund earnings taxed at a maximum rate of 15% within your Australian super fund. Doing this means the applicable fund earnings will not count towards your concessional (pre-tax) or non-concessional (after tax) contribution caps, and the remainder of the amount transferred will be classed as a non-concessional contribution and count towards your non-concessional contribution cap.

If you don't make this request you will have to pay tax on these earnings at your marginal tax rate, and the fund earnings will count towards your non-concessional contribution cap.

Do I need to transfer funds before I retire?

Your intended retirement date is important. Some countries do not allow you to transfer funds as a lump sum if your overseas super provider is paying you an annual pension or annuity. In this case, you may need to transfer your retirement benefit before you retire.

- 1 Applies to taxed funds only ie does not apply to untaxed funds such as the Commonwealth Government Sector Super Scheme.
- 2 The maximum age at which a person can contribute to super is 75 years of age, plus 28 days after the end of the month in which they turn 75.
- 3, 4 This does not include any potential excess non-concessional contributions tax that may be payable.

Speak to us for more information

If you would like to know more about transferring your overseas super benefit or pension to an Australian super fund, contact us. We can give you more detailed information on the best approach for your situation.

Important Information

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