

Taxation of lump sums

MB09 – August 2011

What you need to know

Under current tax law both, your Employer and Member Benefits may be subject to tax if withdrawn as either a rollover or cash lump sum. The only exception to this is dependant payments made in the case of a member's death.

Under the superannuation tax legislation there are three taxation components in your Benefit:

Tax Free (Taxed Source)

You pay no money on the tax-free component when you claim your benefit. The most common source of the tax-free component is your 5% member contributions from your after tax salary. However the tax-free component can be made up of several components.

Taxable Taxed (Taxed Source)

You may have to pay tax on the taxable taxed component when you claim your benefit. The taxable component of your benefit from a taxed source is also made up of different components. The most common of these is the interest earned on your member contributions and your employer productivity contributions.

Taxable Untaxed (Untaxed Source)

The taxable untaxed component is always taxed, with the only exception to this being dependant lump sum payments paid in the event of a member's death.

The most common source for taxable untaxed component of your benefit is your untaxed employer benefit.

Some terms you should know

To assist you in understanding some of the terms referred to in this leaflet, a Glossary is provided on the last page.

Payment of your lump sum Benefit comes from two sources:

- **Taxed source**
 - Member contributions
 - Ancillary contributions
 - Government co-contributions
 - Post-1983 DFRDB contributions
- **Untaxed source**
 - Employer component paid from Consolidated Revenue
 - Pre-1983 DFRDB contributions
 - DFRDB earnings

Table 1

Table 1 shows the type of contributions that make up your Benefit and whether they are a taxed or untaxed source as shown in the following table:

Contribution Type	Source
Member contributions	Taxed
Productivity contributions	
Ancillary contributions	
MSBS Member and Ancillary benefit earnings	
Employer component paid from Consolidated Revenue	Untaxed
Former Members of the DFRDB scheme, who transferred to MilitarySuper, will also have a seperate unfunded component of interest on your unfunded DFRDB Member contributions.	

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How your lump sum will be taxed will depend on your age when you take the Benefit and whether your Benefit is from a taxed or untaxed source.

As you can see from Table 2 below, the older you are when you access your Benefit, the less tax will be deducted.

Table 2

Table 2 shows the percentage of tax payable on lump sums based on your age and tax components.

		Percentage of tax payable on a Taxed Source		Percentage of tax payable on an Untaxed Source	
		Tax-free component	Taxable component	Tax-free component	Taxable component
Under 55		0%	21.5%	0%	31.5%
					Top marginal Tax rate above \$1.205 million threshold
55-59 (and having reached preservation age)	Below \$165 000 threshold	0%	0%	0%	16.5%
	Above \$165 000 threshold	0%	16.5%	0%	31.5%
60 and over		0%	0%	0%	16.5%
					Top marginal Tax rate above \$1.205 million threshold

Note: The medicare levy is included in the percentage of tax payable. The lump sum threshold of \$165 000 is calculated across your entire taxable Benefit, both taxed and untaxed. The lump sum threshold of \$1.205 million is also calculated across your entire taxable Benefit but only applies to untaxed sources.

Proportioning rules apply to superannuation when you claim part of your benefit as a cash lump sum. Any part payment made will include tax free and taxable components in the same proportion as your total benefit. The only exception is when you claim your pre-July 1999 member contributions prior to your preservation age. In this case you can elect to take your tax-free component first, up to the value of your pre-July 1999 benefit.

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Examples

The following examples show the tax implications for Members when accessing a lump sum:

Tax on a lump sum at resignation under 55 years of age

Sergeant White discharges from the Army after 15 years of service at age 35. Under the MilitarySuper rules, SGT White can access his pre 1 July 1999 Member contribution and earnings in cash with the remainder of his MilitarySuper Benefit being preserved until he reaches his preservation age of 60.

Member Benefit	
Member contributions from after-tax salary	\$60 000 (pre 1 July 1999 contributions = \$20 000)
Interest earned	\$75 000 (pre 1 July 1999 contributions = \$30 000)
Total Member Benefit	\$135 000
Employer Benefit	
Productivity contributions	\$30 000
Interest earned	\$45 000
Unfunded Employer Benefit	\$250 000
Total Employer Benefit	\$325 000

On resignation SGT White can access \$50 000 (pre 1 July 1999 contributions PLUS pre 1 July 1999 earnings) of his Member Benefit. The remainder of his Member Benefit, \$85 000 must remain preserved until he reaches his preservation age of 60. SGT White's Employer Benefit also is preserved within MilitarySuper until he reaches age 55 at which time he can claim it as a pension or rollover amount. The Employer Benefit can only be taken as cash if a condition of release has been met.

Tax to be paid on SGT White's \$50,000 – Proportioning option

Proportion of total Member Benefit from after-tax salary contributions	$= (\$50\,000 \div \$135\,000) \times 100 \div 1 = 37\%$
Proportion of total Member Benefit from interest	$= (\$85\,000 \div \$135\,000) \times 100 \div 1 = 63\%$

Therefore, the proportion on the part Benefit taken \$50 000 is:

Proportion of \$50 000 from after-tax salary contributions	$= 37\% \text{ of } \$50\,000 = \$18\,500$
Proportion of \$50 000 from interest is	$= 63\% \text{ of } \$50\,000 = \$31\,500$

When tax is considered: \$18 500 is tax-free, and \$31 500 is taxable.

- \$18 500 no tax
- $\$31\,500 \times 21.5\%$ (including Medicare Levy) = \$6 772

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Tax on a lump sum at resignation under 55 years of age (continued)

Tax to be paid on SGT White's \$50 000 – Tax-free option

	Cash Payment
Member Contributions from after-tax salary	\$50 000
Interest Earned	\$0
Superannuation Lump Sum Payment	\$50 000
Less Tax Payable	\$0
Payment after Tax	\$50 000

Captain Arnell retires from the Navy on his 55th birthday. His Benefit consists of:

Member Benefit	\$250 000
Member contributions from after-tax salary	\$100 000
Taxed Interest earned on Member contributions	\$150 000
Employer Benefit	\$500 000
Taxed Productivity contributions and interest	\$100 000
Untaxed Employer Benefit	\$400 000
Ancillary Benefit	\$0
Total Benefit	\$750 000

Captain Arnell takes his Member Benefit of \$250 000 as a lump sum. He decides to take 50% of his \$500 000 Employer Benefit as a lump sum and 50% as a CPI-indexed pension.

His total lump sum Benefit is \$500 000.

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Tax on a lump sum at resignation under 55 years of age (continued)

Tax Treatment

Lump sum Benefit of \$500 000	Amount	Tax treatment
Members after-salary contributions	\$100 000	Tax-free
Taxed Interest earned on Member contributions	\$150 000	0% tax up to \$165 000 16.5% tax for every dollar over \$165 000
Untaxed Employer Benefit	\$250 000	16.5% Tax (\$0 to \$165 000) 31.5% tax (\$160 001 to 1.205 million)
Taxation on lump sum	Amount	Tax treatment
Benefit component		
Members after-tax salary contributions	\$100 000	Tax-free
Taxed Interest earned on Member contributions	\$150 000	up to \$165,000 (low rate tax cap) is tax free \$165,000 – \$150,000 = \$15,000 remaining in low rate tax cap
Untaxed Employer Benefit	\$250 000	16.5% tax for first \$165,000 of taxable component taken 31.5% tax between \$165,001 - \$1.205 million \$150,000 taxable taxed taken already, leaving \$15,000 available under tax cap $15,000 \times 16.5\% = \$2,475$ $235,000 \times 31.5\% = \$74,025$
Gross lump sum	\$500 000	
Tax payable	\$76 500	
NET (Medicare Levy is included in Tax already)	\$423 500	

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Tax on a lump sum of a preserved Member at age 60

Corporal Timmins resigned from the Air Force in 2001 at age 54 and chose to leave his entire Member Benefit with MilitarySuper. He worked in the private sector for six years and retires on his 60th birthday. Corporal Timmins has decided to take his Member and Employer Benefits as a lump sum.

Member Benefit	
Member contributions from after-tax salary	\$45 000
Interest earned	\$75 000
Total Member Benefit	\$120 000
Employer Benefit	
Productivity contributions	\$25 000
Interest earned	\$40 000
Untaxed Employer Benefit	\$330 000
Total Employer Benefit	\$395 000

Tax Treatment

Tax treatment on total lump sum of \$515 000 (\$120 000 + \$395 000)	
\$45 000 (SGT Jones after-tax salary contributions)	Tax-free
\$75 000 (interest earned)	Tax-free
\$25 000 (productivity contributions)	Tax-free
\$40 000 (interest earned)	Tax-free
\$330 000 (untaxed Employer Benefit)	16.5% up to \$1.205 million
Tax payable on lump sum Benefit	\$330 000 × 16.5% = \$54 450 (including Medicare Levy)

Corporal Timmins would receive \$515 000 less tax of \$54 450 = \$460 550

Rollovers

Instead of taking your benefit from MilitarySuper as a lump sum, you can rollover part or all of your benefit to a regulated superannuation fund, a retirement savings account or an approved deposit fund.

At the time you rollover your benefit, no tax is payable on taxed amounts, however, untaxed amounts will be taxed at 15% by the receiving fund. Higher rates of tax apply for rollovers over \$1.205 million. Tax may also be payable when you take your final benefit from the rollover fund.

You will receive a Rollover Benefits Statement for each rollover fund you nominate (the rollover amount will have been forwarded to your nominated institution for you). You are required to provide the rollover fund with the original statement.

What is my PAYG Payment Summary – Superannuation lump sum?

Your PAYG Payment Summary – Superannuation lump sum is a document which sets out the details of your lump sum payment. It shows you the way your superannuation lump sum payment is broken up into Tax Free, Taxable Taxed and Taxable Untaxed Components. ComSuper will send your PAYG Payment Summary – Superannuation lump sum to you attached to a letter detailing your entitlements paid. You will need this information to complete your tax return.

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For further detailed information on taxation matters

- Visit the Tax Office superannuation web site at www.ato.gov.au/super
- Phone the ATO Superannuation Infoline on **13 10 20** for the cost of a local call.

Glossary

Ancillary contributions

Ancillary contributions include:

- additional personal contributions
- salary sacrifice contributions
- transfer amounts
- spouse contributions
- co-contributions
- SG amounts from Australian Taxation Office (ATO)
- SG amounts from Defence.

Further information can be obtained from www.militarysuper.gov.au.

Taxed source

Taxed sources are those where tax has previously been paid on these contributions:

- Member contributions
- additional personal contributions
- spouse contributions
- co-contributions
- productivity contributions
- Post 1990 contributions
- salary sacrifice contributions
- transfer amounts.

Your Benefit from a taxed source is further divided into two components: tax-free and taxable.

Tax-free (taxed source)

You pay no tax on the tax-free component when you claim your Benefit. The most common source of the tax-free component is your compulsory 5% Member contributions from your after-tax salary. However, the tax-free component of your Benefit from a taxed source can be made up of several components. The most common of these components are:

- Pre-July 1983 component
- Non-concessional contributions

Taxable (taxed source)

You may have to pay tax on the taxable component when you claim your Benefit. The taxable component of your Benefit from a taxed source is also made up of different components. The most common of these components is the Post June 1983 taxed element.

Untaxed source

Untaxed sources are those where no tax has previously been paid on these contributions:

- Employer component (paid from consolidated revenue)
- Former Members of the DFRDB scheme, who transferred to MilitarySuper, will also have a separate unfunded component of interest on your unfunded DFRDB Member contributions

Note: This document contains general advice or information only

Any financial product advice in this document is general advice only and has been prepared without taking account of your personal objectives, financial situation or needs. Therefore, before acting on any such general advice, you should consider the appropriateness of the advice, having regard to your own objectives, financial situation or needs. You may wish to do so with or without the assistance of a licensed financial adviser.