

What you need to know

From 1 July 2007 new superannuation tax legislation arrangements apply. The new taxation arrangements affect all superannuation funds and their members.

This leaflet provides a general guide to tax arrangements on lump sums received from MilitarySuper after resignation, retirement, retrenchment or on claiming preserved Benefits on or after 1 July 2007.

It does not discuss fortnightly payments of MilitarySuper pensions or lump sum death benefits payable to dependants. Please refer to the Taxation Concessions for Pensions and Death and Dependents Benefits publications for this information.

Some terms you should know

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

New terminology

Payment of your lump sum Benefit will come from two sources:

- Taxed source
- Untaxed source

Table 1

Table 1 shows the type of contributions that make up your Benefit and whether they are a taxed or untaxed source

Contribution Type	Source
Member contributions	Taxed
Post 1990 Productivity	
Government Co-contributions	
Transfers in (Money rolled into MilitarySuper)	
Salary Sacrifice	
Additional personal contributions	
Spouse contributions	
Earnings on these contributions	
Pre 1990 Productivity	Untaxed
Employer component paid from Consolidated Revenue	
DFRDB contributions and earnings	

Taxation components

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

- Tax-free
- Taxable (taxed, untaxed source)

How will your lump sum benefit be taxed

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 \$1.1 million threshold
55-59 (and having reached preservation age)	Above \$150 000 threshold	0%	0%	0%	16.5%
	Above \$150 000 threshold	0%	16.5%	0%	31.5%
					Top marginal Tax rate above \$1.1 million threshold
60 and over		0%		0%	16.5%
					Top marginal Tax rate above \$1.1 million threshold

Note: The medicare levy is included in the percentage of tax payable. The lump sum threshold of \$150 000 is calculated across your entire taxable Benefit, both taxed and untaxed. The lump sum threshold of \$1.1 million is also calculated across your entire taxable Benefit but only applies to untaxed sources.

Proportioning

Proportioning rules apply to superannuation when you claim your non preserved (Pre 1 July 1999) Member benefit and have not reached your preservation age, your payment will include both tax free and taxable components. MilitarySuper Members, however have the choice whether to apply all your tax free amount against your lump sum (up to the amount of your Pre 1 July 1999 benefit) or to apply the proportioning rules.

For example:

Member Benefit - Proportioning option

Member contributions from after-tax salary	= \$50 000
Interest earned	= \$75 000
Total Member Benefit	= \$125 000

The Member wishes to take part of the total Member Benefit, \$65 000

Before tax can be taken, the total Benefit must be 'proportioned' into 'tax-free' and 'taxable'

Proportion of total Member Benefit from after-tax salary contributions	= $(\$50\,000/\$125\,000) \times 100/1 = 40\%$
Proportion of total Member Benefit from interest	$(\$75\,000/\$125\,000) \times 100/1 = 60\%$

Therefore, the proportion on the part Benefit taken \$65,000 is:

Proportion of \$65,000 from after tax salary contributions	40% of \$65 000 = \$26 000
Proportion of \$65,000 from interest	60% of \$65 000 = \$39 000

When tax is considered on the amount claimed (\$65 000): \$26 000 is Tax-free, and \$39 000 is Taxable

Member Benefit - Tax Free option

Member Benefit from after-tax Salary	\$50 000
Member Benefit from Interest earned	\$15 000

When tax is considered on the amount claimed (\$65 000): \$50 000 is Tax-free, and \$15 000 is Taxable.

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 30 June 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	\$50 000 (pre 30 June 1999 contributions = \$20,000)
Interest earned	\$75 000 (pre 30 June 1999 earnings = \$30,000)
Total Member Benefit	\$125 000
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 30 June 1999 contributions PLUS pre 30 June 1999 earnings) of his Member Benefit. The remainder of his Member Benefit, \$75 000 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.

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

Proportion of total Member Benefit from after-tax salary contributions	= $(\$50\,000 / \$125\,000) \times 100/1 = 40\%$
Proportion of total Member Benefit from interest	= $(\$75\,000 / \$125\,000) \times 100/1 = 60\%$

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

Proportion of \$50,000 from after tax salary contributions is	40% of \$50 000 = \$20 000
Proportion of \$50,000 from interest is	60% of \$50 000 = \$30 000

When tax is considered: \$20 000 is Tax-free, and \$30 000 is Taxable

- \$20 000 no tax
- \$30 000 x 21.5% (including Medicare Levy) = \$6 450

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	Preserved Payment
Member Contributions from after-tax salary	\$50 000	\$0.00
Interest Earned	\$0.00	\$75 000
Superannuation Lump Sum Payment	\$50 000	\$75 000
Less Tax Payable	\$0.00	\$0.00
Payment after Tax	\$50 000	\$75 000

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Tax on a lump sum at retirement age between 55 and 59

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

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 \$150 000 16.5% tax above \$150 000
Untaxed Employer Benefit	\$250 000	31.5% tax (\$150 001 to \$1.1 million)
Taxation on lump sum	Amount	Tax treatment
Benefit component	Tax Payable	
Members after-salary contributions	\$0	
Taxed Interest earned on Member contributions	\$1 500	\$150 000 is tax-free Taxable amount above threshold is \$150 000 - \$150 000 = \$0
Untaxed Employer Benefit	\$75 000	Taxable amount above threshold is \$250 000 \$250 000 x 31.5% = \$78 750
Gross lump sum	\$500 000	
Tax payable	\$78 750	
NET (before Medicare Levy is applied)	\$421 250	

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 \$1.1 million
Tax payable on lump sum Benefit	\$330 000 x 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 \$1.1 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. 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.

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.
- Rejoining the ADF

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.

Glossary

Ancillary contributions

Ancillary contributions include:

- additional personal contributions
- salary sacrifice contributions
- transfer amounts
- spouse contributions
- co-contributions.

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

Associate

A former spouse of a MilitarySuper Member who gains a separate superannuation interest in the fund when a family law court order or superannuation agreement is put into effect.

Co-contributions

Co-contributions are an additional contribution to your superannuation from the Australian Government when your total income is less than the prescribed amount. Further information is available at www.ato.gov.au/super

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
- 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 Benefits from a taxed source can be made up of several components.

The most common of these components are:

- Pre July 1983 component
- Undeducted contributions
- Post June 1994 invalidity component

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.

Taxable (untaxed source)

You may pay tax on the taxable component when you claim your benefit. The most common taxable component of your benefit from an untaxed source is your untaxed Employer Benefit.

Untaxed source

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

- Employer component (paid from consolidated revenue)
- Productivity (pre-1990)
- 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.