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## Lump sum superannuation benefits

Many clients require advice on accessing their superannuation benefits. In this TapIn Guide, we outline the conditions of release allowing people to access their preserved superannuation benefits and also consider the taxation implications when benefits are withdrawn as a lump sum. Please note that this guide only covers superannuation benefits paid whilst a person is alive. TapIn has produced a separate guide on superannuation death benefits.

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## Accessing superannuation benefits

There are 3 levels of preservation within a super fund:

- preserved (PB)
- restricted non-preserved (RNPB)
- unrestricted non-preserved (UNPB).

UNPBs can be accessed as a lump sum or income stream at any age, regardless of work status. To access PBs & RNPBs, a condition of release must be met. The most common conditions of release are discussed in the following section.

Note that a superannuation fund trustee, under the governing rules of the fund, might impose more stringent preservation requirements than the legislation. That is, trustees may not release benefits under every condition of release or may have stricter requirements than prescribed in the legislation.

Note also that the preservation status of a person's superannuation benefits has no bearing on how the benefit will be taxed upon eventual withdrawal from the fund. For example, UNPBs are not automatically tax free upon withdrawal. The taxation of superannuation withdrawals depends on several factors, such as the:

- Condition of release the benefits are being withdrawn under (eg retirement, permanent incapacity or terminal illness).
- Underlying tax-free/taxable proportions.
- Age of the member.

Taxation implications of lump sum withdrawals are discussed from page 8.

### Retirement

For superannuation purposes, a person's retirement depends on their age and future employment intentions. A person cannot access superannuation benefits under the retirement condition of release until they reach preservation age (outlined below). Once preservation age has been reached, the definition of retirement depends on whether or not the person has reached age 60.

#### Preservation age

Date of birth	Preservation age
Before 1 July 1960	55 years
1 July 1960–30 June 1961	56 years
1 July 1961–30 June 1962	57 years
1 July 1962–30 June 1963	58 years
1 July 1963–30 June 1964	59 years
After 30 June 1964	60 years

Interestingly, if a person has never been gainfully employed<sup>1</sup> in their life, they cannot use the retirement condition of release to access their preserved superannuation benefits. Such a person would need to satisfy another condition of release to access their benefits (eg, transition to retirement, severe financial hardship).

#### Preservation age but less than age 60

Where a person has reached a preservation age that is less than 60, their retirement occurs when:

- An arrangement under which the person was gainfully employed has come to an end. This may have occurred at any time, including prior to their preservation age; and

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<sup>1</sup> Gainfully employed means employed or self-employed for gain or reward in any business, trade, profession, vocation, calling, occupation or employment.

- The trustee is reasonably satisfied that the person intends never to again become gainfully employed on either a full-time or part-time basis (i.e. for 10 or more hours per week).

## **Age 60 but less than 65**

When a person has reached age 60, retirement occurs when an arrangement under which the person was gainfully employed has ceased on or after the person reached age 60. It does not matter that the person may intend returning to the workforce.

If a person has attained age 60 but has not ceased a gainful employment arrangement since turning age 60, they can still access their preserved superannuation benefits as long as they have ceased gainful employment at some stage in their life and intend never to again become gainfully employed on either a full-time or part-time basis.

For example, Jack (age 63) changed jobs when he was 50. He has been working 40 hours per week since that time and now wishes to reduce his hours to 8 per week. Jack cannot use the “age 60” definition of retirement as he has not ceased gainful employment since turning age 60. The reduction in work hours, although significant, does not constitute ceasing gainful employment. However, Jack could still access his preserved superannuation benefits using the 55 – 60 definition of retirement. This is because Jack has ceased gainful employment at some stage (age 50) and does not intend on working for 10 hours or more per week in the future.

## Two employment arrangements

Situations sometimes arise where a person, aged 60 or over, is in two or more employment arrangements at the same time. According to APRA Circular I.C.2, the cessation of one of the employment arrangements is the condition of release in respect of all preserved benefits accumulated up until that time. The occurrence of the ‘retirement’ condition of release in these circumstances will not enable the cashing of any preserved or restricted non-preserved benefits which will accrue after the condition of release has occurred. A person will not be able to cash those benefits until another condition of release occurs (eg, he also leaves his second employer).

If a person aged 60 to 64 commences a new employment arrangement after satisfying a condition of release (such as retirement from a previous employment arrangement at or after age 60), benefits in respect of the new employment will remain preserved until a further condition of release is satisfied.

## Employee and director of own company

Sometimes a person is both an employee and director of their own company. They may wish to cease their employment duties with the company but retain their directorship. The question arises as to whether such a person (age 60 – 64) can access their preserved superannuation benefits.

As noted previously, if a person is engaged in more than one arrangement of employment, the person can cease any arrangement of employment to meet the age “60” definition of retirement.

Therefore, as long as a person’s two roles are separate and they terminate in their capacity as an employee of the company, even though they are still employed in the capacity as director of the company, that person can access their preserved superannuation entitlements.

Note that there must be a distinct termination, i.e. cessation of all duties as an employee, and the person is now only operating in her capacity as a director for the company.

## **Age 65**

Attaining age 65 is an automatic condition of release. All superannuation benefits can be released regardless of whether or not the person continues to work. Therefore, a person does not need to commence a Transition to Retirement (TtR) income stream at this age. A normal income stream without a maximum payment can be commenced.

If an individual has commenced a TtR income stream prior to reaching age 65, the income stream will become fully accessible after their 65<sup>th</sup> birthday. This means that there is no longer a maximum payment and lump sum commutations can be made.

Note that a female attaining social security pension age (currently 64) does not meet this condition of release.

## Death

Death is an automatic condition of release. Superannuation death benefits can only be paid by the trustee directly to certain people. For further information, refer to TapIn Guide – Superannuation Death Benefits.

## Terminal medical condition

A person can access preserved and restricted non-preserved benefits if they are classified as having a terminal medical condition. A terminal medical condition exists if:

- Two registered medical practitioners have certified jointly or separately that the member suffers from an illness, or has incurred an injury, that is likely to result in the member's death within 12 months of the date of certification,
- At least one of the registered medical practitioners is a specialist practicing in an area related to the illness or injury, and
- The certification period has not ended for each of the certificates.

Where a member satisfies the terminal medical condition of release, any benefits that have accrued up to that point in time will become unrestricted non-preserved and as such can be accessed at any time. Any additional benefits accrued by the individual whilst the certification period is still current will also become unrestricted non-preserved and can also be accessed at any time. However, any benefits that accrue after the certification period has expired are not covered by this condition of release and as such will be preserved.

Lump sum benefits released under the terminal illness condition of release are tax free. See page 12 for further information.

## Permanent incapacity

A person may access their superannuation benefits on the grounds of permanent incapacity where the trustee is reasonably satisfied that the person is unlikely, because of ill-health (whether physical or mental), to engage in gainful employment for which the person is reasonably qualified by education, training or experience.

The permanent incapacity condition of release can be used to release both accumulated superannuation entitlements and to obtain the proceeds of a total & permanent disability (TPD) insurance policy paid to the trustee of the fund.

When TPD insurance cover is held in superannuation it is important to recognise the difference between the insurer's definition of incapacity (which can be "any occupation" or "own occupation" TPD) and the condition of release. A member might meet the insurer's definition of "disability" (eg "own occupation"), and the proceeds will be paid to the fund trustee (the policy owner). However, unless a narrower SIS definition is also satisfied, the superannuation benefits will remain preserved. In this situation, the member will only be able to access their superannuation benefits, including insurance proceeds, when they meet another condition of release (eg, reaching preservation age and declaring permanent retirement or reaching age 65). For further information on insurance within the superannuation environment, refer to TapIn Guide – Superannuation and insurance.

Tax concessions may apply where benefits are withdrawn due to permanent incapacity and meet the tax definition of a disability superannuation benefit. These are discussed on page 13.

## Temporary incapacity

A person may access preserved and restricted non-preserved benefits where the trustee is satisfied that temporary incapacity exists. The temporary incapacity condition of release is met where the person has temporarily ceased work as a result of physical or mental ill-health which does not constitute permanent incapacity. It is not necessary for the person's employment to fully cease. This condition of release is generally used to release salary continuance/ income protection insurance benefits from the super fund.

Payment of benefits on temporary incapacity is subject to the following restrictions:

- The benefit is paid as a non-commutable income stream.
- The purpose of the payment is to continue (in whole or in part) the gain or reward which the member received before the temporary incapacity. Generally a member on fully paid leave (e.g. sick leave) will not be eligible to receive temporary incapacity benefits.

- The period of benefit payments must not exceed the period of incapacity from full employment at the level of weekly hours of the kind engaged in immediately before the member became ill.
- The benefits must not be paid from the member's minimum benefits.

Benefits released under the temporary incapacity condition of release are assessable income and taxed at the member's marginal tax rate.

### **Severe financial hardship**

Preserved and restricted non-preserved benefits may be released on the grounds of severe financial hardship. Different criteria for release apply depending on the age of the member.

Note that people under preservation age can meet this condition of release under test 1 only. People over preservation age plus 39 weeks can meet this condition of release under either test 1 or test 2.

#### **Test 1: People who have not reached their preservation age plus 39 weeks**

The trustee must be satisfied on written evidence that the person:

- Is unable to meet reasonable and immediate family living expenses; and
- Has received a relevant Commonwealth income support payment for at least the previous 26 weeks from a Commonwealth Department or Agency (i.e. Centrelink, Department of Veterans' Affairs) or a Commonwealth Community Development Employment Projects (CDEP) organisation and is receiving these benefits on the date of the application.

The payment of benefits on grounds of severe financial hardship must be a single gross lump sum of no more than \$10,000 and no less than \$1,000 (or a lesser amount if the balance of the member's benefit is less than \$1,000).

Only one payment per member, per fund is permitted in any twelve month period. If a member has more than one superannuation fund, it may be possible to access \$10,000 from each fund. However, each trustee may take into consideration the payments received from other superannuation funds when deciding how much (if any) to release.

#### **Test 2: People who have reached their preservation age plus 39 weeks**

Benefits may be released on the grounds of severe financial hardship if a person:

- Is not gainfully employed on a full-time or a part-time basis on the date of the application; and
- Has received a relevant income support payment provided by a Commonwealth Department or Agency for a cumulative period of at least 39 weeks or more after reaching their preservation age.

There is no maximum amount that can be released once the person has reached their preservation age plus 39 weeks. The trustee will determine how much (if any) can be released.

Note that payments made under the severe financial hardship rules do not attract special tax concessions. Benefits released under this condition are taxed as a normal superannuation withdrawal (see page 8 onwards).

### **Compassionate grounds**

Preserved and restricted non-preserved benefits may be released on compassionate grounds where a person does not have the financial capacity to meet certain expenses.

Benefits may be released to:

- Pay for medical or dental expenses, for you or a dependant of yours.
- Pay for transport to medical or dental treatment, for you or a dependant of yours.
- Prevent your home from being sold by the lender that has the mortgage for it.
- Modify your home or vehicle to accommodate your needs, or the needs of a dependant, in the case of severe disability.
- Pay for expenses associated with caring for a person with a terminal medical condition (i.e. palliative care), for yourself or a dependant.

- Pay for expenses associated with a dependant’s death, funeral or burial.

Note that payments against vehicles, utilities, credit cards or other personal debt are not “specified compassionate grounds”, unless they are related to one of the above situations.

A person should apply directly to APRA if they wish to access their benefits on compassionate grounds. In the first instance, APRA will determine whether benefits can be released and the amount. However, the final decision to release benefits rests with the superannuation fund trustee. Further information and application forms are available on the APRA website at <http://www.apra.gov.au/Superannuation/Early-Release-of-Superannuation-Benefits.cfm>.

Note that payments made on compassionate grounds do not attract special tax concessions. Benefits released under this condition are taxed as a normal superannuation withdrawal (see page 8 onwards).

### **Terminating employment – less than \$200**

A person may cash preserved and restricted non-preserved benefits upon terminating employment with a standard employer-sponsor (on or after 1 July 1997) if the preserved benefits are less than \$200 at the time of the termination.

A standard employer-sponsor is an employer that contributes to the fund (or has ceased only temporarily to contribute) wholly or partly pursuant to an arrangement between the employer and the trustee of the fund.

Assuming a full withdrawal is made, benefits released under this condition of release are tax free.

### **Terminating employment – more than \$200**

Restricted non-preserved benefits can be accessed as a lump sum (or income stream) by terminating employment (i.e. upon resignation, retrenchment or dismissal prior to retirement) with an employer who had, or any of whose associates had, at any time contributed to that fund in relation to the member.

Preserved benefits can also be accessed by terminating gainful employment, but only as a lifetime non-commutable income stream. Note that this type of income stream is not the same as a TtR income stream and it is very unusual for preserved benefits to be paid out using this condition of release.

### **Temporary residents departing Australia**

From 1 April 2009, a member who is a temporary resident (or was formerly a temporary resident), will only be able to access their superannuation benefits under a limited number of conditions of release. These are:

- Temporary or permanent incapacity of the member (temporary or permanent),
- Terminal illness of the member,
- Death of the member, or
- As a Departing Australia Superannuation Payment.

Reaching preservation age and retiring or attaining age 65 are no longer conditions of release for temporary residents.

For further information on the 1 April 2009 changes, refer to TapIn Bulletin 105 – New superannuation rules for temporary residents.

### **Departing Australia Superannuation Payment**

The Departing Australia Superannuation Payment (DASP) provisions allow temporary residents to access their preserved superannuation benefits upon departure from Australia provided that the person:

- Visited on a temporary visa listed under the Migration Act 1958 (excluding subclasses 405 and 410) which is no longer in effect, and
- Has left Australia after starting to be the holder of a visa.

Importantly, the DASP provisions are not available to Australian and New Zealand citizens, permanent residents of Australia or holders of retirement visas.

## Claiming the DASP

After departing Australia, a person who has satisfied the DASP criteria can claim their superannuation at any time via a paper application or using the ATO's Departing Australia superannuation payment (DASP) online application system.

If a paper application is used and the person's account balance is over \$5,000, a Form 1194 Certification of immigration status will be required from the Department of Immigration and Citizenship (DIAC). A fee is charged by DIAC for this service.

The DASP is subject to withholding tax. See page 13 for further information.

Further information on the DASP and access to the online claim system, refer to the ATO website at <http://www.ato.gov.au/superfunds/content.asp?doc=/content/32703.htm>.

## Retaining superannuation in Australia

Temporary residents can retain their superannuation in Australia however the benefit may be transferred to the ATO as unclaimed super. This transfer generally occurs six months after the later of:

- The person departs Australia, and
- Their visa has expired or been cancelled.

Once benefits are transferred from a superannuation fund to the ATO, the ATO will hold the superannuation balance indefinitely. The benefits will not accrue any interest and will not provide any insurance benefits.

The tax components of these benefits will remain the same as those applying at the time of the transfer. Once transferred to the ATO, should the former temporary resident (or their legal personal representative) wish to access their superannuation, they will need to do so by contacting the ATO.

## Transition to retirement

Although this TapIn Guide focuses on superannuation benefits accessed as a lump sum, it is worthwhile including a brief discussion of the transition to retirement (TtR) condition of release.

This condition of release allows a person to access their preserved and restricted non-preserved benefits as a non-commutable income stream once they have reached preservation age. Benefits cannot be accessed under this condition of release as a lump sum. A non-commutable income stream for TtR purposes is subject to a maximum annual draw down of 10% per annum. Note that this maximum is not subject to a pro rata basis if the income stream is commenced part way through the financial year.

# Taxation of lump sum superannuation benefits

Once it has been determined that superannuation benefits can be accessed, consideration must be given to the taxation implications if these benefits are taken as a lump sum.

The taxation of a superannuation withdrawal depends on 3 factors:

1. **The reason for the withdrawal** - For example, is the person making the withdrawal due to permanent incapacity or terminal illness? Special tax concessions apply in these circumstances. See page 12 onwards for further details.
2. **The age of the client** - Is the client under age 55, between 55 and 60 or over age 60?
3. **The underlying tax components** – What are the underlying tax components of the fund? These could be tax-free component and/or taxable component (either taxed or untaxed element). This is considered in further detail below.

## Tax components of a superannuation benefit

From 1 July 2007, a lump sum superannuation benefit is made up of a:

- tax-free component, and/or
- taxable component which may include an element
  - taxed in the fund, and/or
  - untaxed in the fund.

## Withdrawals in accumulation phase

When a lump sum superannuation withdrawal is made from accumulation phase, the benefit will include both tax-free (if any) and taxable components calculated in the same proportion that these components make up the total value of the superannuation interest. The tax-free and taxable components of a withdrawal are based on the value of the person's account balance at the time **just before** the withdrawal is made<sup>2</sup>. Importantly, tax-free component cannot be withdrawn on its own.

### Example 1 – Proportioning rule in accumulation phase

David (age 56) has a superannuation account balance of \$275,000. He has recently retired and wishes to make a \$20,000 withdrawal. The tax-free and taxable proportions of his current superannuation balance are as follows:

		Proportion (%)
Tax-free component	\$150,000	= ( $\$150,000 / \$275,000$ ) = 54.55%
Taxable component	\$125,000	= ( $\$125,000 / \$275,000$ ) = 45.45%
<b>Total:</b>	<b>\$275,000</b>	<b>100%</b>

Of David's \$275,000 account balance, 54.55% is tax-free component and 45.45% is taxable component. These proportions will be applied to David's withdrawal. Therefore, 54.55% of David's \$20,000 withdrawal (\$10,910) will be from his tax-free component and 45.45% (\$9,090) of the withdrawal will be from his taxable component. This also means that the remaining tax-free component within the fund is reduced to \$139,090.

<sup>2</sup> Different rules may apply to untaxed superannuation funds.

## Commutations from a superannuation sourced income stream

The proportioning rules applying to lump sum commutations from a superannuation sourced income stream are different to those applying to withdrawals from accumulation phase. The tax-free and taxable proportions of an income stream are determined at the **commencement** of the income stream. These proportions are then applied to any future commutations made.

### Example 2 – Proportioning rule in pension phase

Let's take David from our previous example and assume that he starts an account based pension with his superannuation balance of \$275,000. Upon commencement of the pension, the tax-free percentage is 54.55% and the taxable percentage is 45.45%.

Let's assume that the value of the pension increases to \$300,000 in 2 years time. At this time, David wants to make a \$40,000 commutation. The components of the commutation will still be 54.55% tax-free and 45.45% taxable, in accordance with the percentages at commencement.

### Tax rates

Once the components of the superannuation withdrawal have been determined, the applicable tax rate (if any) must be applied. This rate depends on the age of the member at the time the benefits are received and whether they are paid from a taxed or untaxed fund.

Further, where the recipient is under age 60, the amount of tax payable will also be determined by the break up of the benefit between its tax-free and taxable component.

### The tax-free component

Upon withdrawal, the tax-free component will not be treated as assessable income and is excluded from all tax return calculations. This will ensure that the tax-free component is always received completely tax-free and without indirect tax consequences.

### The taxable component

The taxable component will be subject to tax as follows:

#### Element taxed in the fund

Age	Maximum tax rates	
60 and over		Nil
Preservation age – Age 59	First \$160,000 <sup>1</sup>	Nil
	Amounts over \$160,000 <sup>1</sup>	15% <sup>2</sup>
Below preservation age		20% <sup>2</sup>

<sup>1</sup>Referred to as the low rate cap, indexed annually, but only increased in increments of \$5,000.

<sup>2</sup>Medicare levy will also apply.

Superannuation benefits paid from an untaxed superannuation fund will contain an untaxed element in relation to the taxable component. Any amounts of taxable component with an untaxed element will be subject to the following rates of tax when received while the member is alive:

## Element untaxed in the fund

Age	Maximum tax rates	
60 and over	First \$1,155,000 <sup>1</sup>	15% <sup>2</sup>
	Amounts over \$1,155,000 <sup>1</sup>	45% <sup>4</sup>
Preservation age – Age 59	First \$160,000 <sup>3</sup>	15% <sup>2</sup>
	\$160,000 <sup>3</sup> - \$1,155,000 <sup>1</sup>	30% <sup>2</sup>
	Amounts over \$1,155,000 <sup>1</sup>	45% <sup>4</sup>
Below preservation age	First \$1,155,000 <sup>1</sup>	30% <sup>2</sup>
	Amounts over \$1,155,000 <sup>1</sup>	45% <sup>4</sup>

<sup>1</sup>Referred to as the untaxed plan cap, indexed annually but only in \$5,000 increments. Applicable on a per superannuation plan basis.

<sup>2</sup>Medicare levy will also apply.

<sup>3</sup>Referred to as the low rate cap, indexed annually but only increased in increments of \$5,000.

<sup>4</sup>This is a flat rate and Medicare levy will also apply.

### The low rate cap

The low rate cap operates in much the same way as the low rate threshold operated prior to 1 July 2007 in relation to the Post June 1983 component.

For the 2010/11 financial year, the low rate cap is \$160,000. This cap is indexed annually but only increased in \$5,000 increments. Each year, the individual's cap will be reduced by the total amount of taxable component (and applicable Post June 1983 withdrawals prior to 1 July 2007) that has been applied to the cap in the previous year(s).

The low rate cap is first applied to taxed elements in the fund and then to untaxed elements.

Amounts counted against the low rate cap are not indexed in relation to future withdrawals.

### PAYG withholding obligations

Depending on the age of the member and the component withdrawn, the fund may withhold tax from any withdrawal made as follows<sup>3</sup>:

- **Withdrawals for person's age 60 and over**  
As the entire payment is tax-free after a member turns 60, superannuation funds are not required to withhold any tax from a payment or issue a payment summary.
- **Withdrawals for people preservation age but under 60**  
No tax is withheld on the tax-free component and the taxable component up to the low rate cap (currently \$160,000). Tax at the rate of 16.5% is withheld on amounts above the low rate cap.
- **Withdrawals for people under preservation age**  
No tax is withheld on the tax-free component. Tax at the rate of 21.5% is withheld on the taxable component.

The taxable component of a superannuation lump sum benefit needs to be included in a person's tax return and is added to their assessable income (where aged under 60). Tax payable is capped at maximum rates (as stated in the tables on previous page) by operation of a tax offset.

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<sup>3</sup> Different withholding rates apply to withdrawals made from untaxed funds.

If the marginal tax rate(s) applying to the lump sum is less than the rate of withholding applied to the payment, the member will only be taxed on their taxable component at their marginal tax rate. If the member's marginal tax rate is higher than the rate of withholding applied to payment, the member will receive a tax offset to ensure the rate of tax on the taxable component does not exceed the rate of tax withheld.

The inclusion of the taxable portion of the withdrawal in a person's tax return and therefore assessable/taxable income for the year can have indirect consequences on superannuation concessions, tax offsets and family payments that the person may receive. For example, the Government co-contribution, spouse contribution tax offset, low income tax offset & Family Tax Benefit may be negatively impacted by the withdrawal, even if the amount of the taxable component is less than \$160,000 low rate cap.

## Terminal Illness and Disability Superannuation Benefits

Where lump sum superannuation withdrawals are paid due to terminal illness or permanent disability, special tax rules apply.

### Terminal medical condition

Lump sum withdrawals from superannuation accessed under terminal medical condition of release are tax-free.

A lump sum superannuation benefit paid to a member who meets the 'terminal medical condition' condition of release at the time of payment (or within 90 days after the payment), is not assessable income and is not exempt income. That is, it is tax-free. Note that payment of a superannuation lump sum is required to create the tax-free benefit. An insurer may pay a terminal illness benefit into a member's account, and that member may meet the 'terminal medical condition' under SIS – but until the benefit is paid from the fund as a lump sum the tax components are not impacted.

Some thought needs to be given as to whether or not to claim terminal illness benefits whilst alive. See TapIn Guide – Superannuation and insurance for further information.

## Disability Superannuation Benefits

A person receives a disability superannuation benefit if:

- The benefit is paid because he or she suffers from ill-health (whether physical or mental), and
- Two legally qualified medical practitioners have certified that, because of the ill health, it is unlikely that the person can ever be gainfully employed<sup>4</sup> in a capacity for which he or she is reasonably qualified because of education, experience or training.

When a lump sum disability superannuation benefit is paid, the tax-free component of the benefit will be increased to broadly reflect the period where the person would have expected to have been gainfully employed and can be calculated as the sum of:

- the tax-free component (calculated as per normal), and
- the amount worked out by the below formula.

$$\text{Amount of benefit} \times \frac{\text{Days to retirement}}{\text{Service days} + \text{Days to retirement}}$$

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<sup>4</sup> Gainfully employed means employed or self-employed for gain or reward in any business, trade, profession, vocation, calling, occupation or employment.

Where:

- **Days to retirement:** date person stopped being capable of being gainfully employed to his/her last retirement date.
- **Last retirement date:** generally taken to be the person's 65<sup>th</sup> birthday.
- **Service days:** number of days in the service period.

### Example 3 – Disability superannuation benefit

Roy is 45 (born 1 July 1965) and was recently involved in an accident which has left him totally and permanently incapacitated. He has superannuation in a taxed fund of \$450,000 of which \$25,000 represents tax-free component. His service date in the fund is 1 January 1985 and he ceased gainful employment on 1 August 2010.

If Roy wishes to withdraw his entire superannuation balance, the components would be as follows:

#### Disability superannuation benefit formula

$$= \$450,000 \times \frac{7,275}{(9,344 + 7,275)}$$
$$= \$196,988$$

	Tax-free	Taxable
Existing	\$25,000	\$228,012
From formula	\$196,988	
<b>Total</b>	<b>\$221,988</b>	

If Roy withdrew his entire superannuation balance, he would be liable for \$49,023 in tax (21.5% tax on the taxable component of \$228,012). He is unable to withdraw the tax-free component on its own.

In relation to disability superannuation benefits, it is worth considering:

- The closer the member is to age 65 when they cease being capable of gainful employment, the lower the tax-free portion of their payment. This is because they have less time until they would have otherwise been deemed to retire (usually age 65).
- A longer service period also results in a lower tax-free portion.
- Under the proportioning rules, tax-free component cannot be taken out separately from taxable component. Each withdrawal will need to contain both tax-free and taxable components in proportion to the overall account balance.

### Departing Australia Superannuation Payment

From 1 April 2009, the tax rates applicable to the lump sum Departing Australian Superannuation Payment are:

#### Departing Australia Superannuation Payment

Component	Flat Tax Rate*
Tax-Free	Nil
Taxable: Taxed element	35%
Taxable: Untaxed element	45%

\* Medicare Levy is not payable on these rates.

The payment will be subject to withholding tax, even if the person has reached preservation age and retired. In addition, the individual may also be subject to tax on the superannuation lump sum in their country of residence.

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