

# TAX ON SUPERANNUATION EARNINGS AND BENEFITS FACT SHEET



The Government wants to encourage people to save for their retirement. That's why superannuation is taxed concessionally. However, the rules on how super is taxed can be complex.

The following information is designed to help you understand those rules. The information is general information only, and doesn't take account of your individual financial situation, objectives or needs. If you need advice, we encourage you to consult with a licensed financial adviser. SPEC Super has appointed Money Solutions Pty Ltd (ABN: 36 105 811 836, AFSL No: 258145) as the preferred provider of financial planning services to members.

In addition, we've assumed that you have provided your Tax File Number (TFN) to your super fund. See the section on Tax File Numbers for the tax consequences of not providing your TFN.

## When is Super taxed?

Superannuation may be taxed at three points – when you contribute to the Fund, on the investment earnings of the fund, and when you are paid in cash from the Fund.

A separate Fact Sheet has been developed which addresses contributions, including contribution limits, taxation and eligibility for making contributions. This Fact Sheet deals with Tax on Earnings and Tax on benefits.

### Tax on Earnings

How your superannuation fund earnings are taxed depends upon whether you are in the “superannuation” part of the Fund, or whether you are being paid a pension from the Fund.

If you are a superannuation fund member, earnings on investments are taxed at 15% within the Fund. Tax deductions, offsets and credits often reduce this 15% rate. This tax is deducted from the investment earnings before crediting rates are determined. In other words, by the time the Fund declares its final crediting rate, the tax on investment earnings has already been taken out.

If you are receiving a pension from SPEC Super, no tax is applied to the earnings on the investments making up the pension part of the Fund. That is why crediting rates applied to pension members are usually higher than for superannuation members.

### Tax on Benefits

If you are aged 60 or more and are eligible to receive a benefit due to ceasing work or retirement, benefits paid from a taxed super fund (such as SPEC Super) are generally tax free, whether paid as a lump sum or as a pension.

Benefits paid in cash to a person under age 60 may be comprised of:

- A tax free component. No tax is payable on this component, and / or
- A taxable component. How this component is taxed depends on your actual age and your preservation age. The following table summarises the treatment of the taxable component:

Age at payment of benefit	Lump Sum (Taxable Component)	Pension (Taxable Component)
60 or over	Tax free	Tax free
Preservation age, up to and including age 59	Tax free, up to the “low rate cap”*. Amounts above the “low rate cap” are taxed at 15% plus Medicare levy.	Marginal tax rates, with a 15% tax offset.
Below Preservation age	20% tax plus Medicare Levy	Marginal tax rates, with no offset (except for disability payments).

\*The “low rate cap” is \$150,000 for the 2009/10 year and is indexed annually in line with increases in AWOTE, in \$5,000 increments.

## Tax on certain types of benefits

There are certain types of benefits that attract different tax treatment, such as:

### Tax on Departing Australia Benefit

There is no tax payable on the tax free component of this benefit. The taxable component is taxed at 35%. The untaxed taxable component is taxed at 45%.

### **Tax on Death Benefits**

A death benefit paid as a lump sum is tax free if it is paid to a person who is a dependent for tax purposes – that is:

- A spouse or former spouse (including defacto spouse and same-sex partner);
- A child less than 18 years of age;
- A person with whom the deceased had an interdependency relationship; or
- Any other person who was financially dependent on the deceased just before death.

If the death benefit is paid as a lump sum to the spouse, ex-spouse or child of the deceased, an additional amount may be payable, reflecting the refund of the 15% contributions tax (if any) paid by the member during their membership of the Fund (ie. in relation to employer contributions, salary sacrifice contributions or personal contributions for which a tax deduction was claimed).

If the death benefit is paid to a non-dependent as a lump sum, the taxable component is taxed at 15% plus Medicare Levy, except where the beneficiary has not supplied their Tax File Number. The taxable component in this case is taxed at the top marginal rate plus Medicare Levy.

A death benefit paid as a pension (ie. to a reversionary beneficiary) will be tax free if the deceased member was over 60. The pension will also become tax free to the beneficiary once they reach age 60. Until then, the taxable component of the pension is taxed as per the above table.

### **Tax on Total and Permanent Disablement Benefits**

A person receives a disability superannuation benefit if they have suffered a physical or mental illness and two legally qualified medical practitioners certify that the person is unlikely to be gainfully employed again in a position for which they are reasonably qualified, due to their education, experience or training. Where a person receives a disability benefit as a lump sum, the tax free component of the benefit is increased to reflect the period where they would have expected to have been gainfully employed until normal retirement age (generally age 65).

### **Tax on Terminal Medical Condition**

If a person receives a benefit on the basis of a 'terminal medical condition', the benefit is tax free. To meet this definition, a certification is required from two medical practitioners (at least one of whom is a specialist) that you are suffering from an illness that, in the normal course of events, is likely to result in death within 12 months.

### **Tax on Lump Sum Benefits less than \$200**

Provided the super fund allows such payments, and provided further that the benefit to be paid is the entire benefit in the Fund, payments of less than \$200 are tax free.

### **Very Important....Your Tax File Number**

Under Government legislation, your superannuation fund is authorised to collect your TFN, which will be used only for lawful purposes. Those purposes may change in the future if Government legislation changes. Your super fund may disclose your TFN to another superannuation provider when your benefits are being transferred, unless you request your super fund in writing that your TFN not be disclosed to any other superannuation provider.

### **What happens if you don't provide your Tax File Number?**

It is not an offence if you decide not to quote your TFN. However, if you don't provide your TFN:

- Your super fund can't accept any non-concessional (personal, after tax) contributions on your behalf. If you try to make personal contributions and you haven't provided your TFN, your contributions will be refunded to you;
- The taxable component of your benefits paid to you will be subject to PAYG tax at the highest marginal rate, plus Medicare Levy (ie total of 46.5% tax). This may be recovered after lodgement of your tax return;
- Your super fund may not be able to locate and amalgamate multiple benefits in your fund; and
- Your taxable contributions received by your super fund may be subject to additional tax of 31.5%, in addition to the 15% tax already applied to taxable superannuation contributions.

Need advice on tax issues in relation to your superannuation? SPEC Super has appointed Money Solutions Pty Ltd (ABN: 36 105 811 836, AFSL No: 258145) as the preferred provider of financial planning services to members. SPEC Super can refer you to a Money Solutions qualified financial planner for help. Simply ring SPEC Super on 1300 366 648. Money Solutions may also be able to help you with investment advice, planning for retirement and death and disablement insurance cover.

SPEC(QLD) PTY. LTD. (ABN 60 010 743 405, AFSL No. 325 122) is the Trustee of SPEC Super (ABN 45 404 406 059), and is authorised to provide general financial product advice in relation to superannuation.

The information provided by SPEC Super is of a general nature and does not take into account your individual financial situation, objectives or needs. If you require such specific advice, you should contact a licensed financial adviser. Because of this you should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. You should obtain a Product Disclosure Statement (PDS) and consider the PDS before making any decision.



**SPEC Super**  
**PO Box 1109, MILTON QLD 4064**  
**Phone: 1300 366 648**