FACT SHEET

Superannuation and Tax – Withdrawals

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The amount of tax paid upon withdrawing superannuation can depend on the types of contributions that were made, your age upon withdrawal, the taxation status of your super fund and whether you withdraw the funds as a lump sum or via an income stream. This factsheet explains tax on withdrawals from 'taxed' super funds (commonly referred to as account based funds) and 'untaxed' super funds also referred to as defined benefit funds.

The tax exempt component comprises all non-concessional contributions, the Capital Gains Tax (CGT) exempt component and components previously known as the Pre 1 July 1983 component, the Post 30 June 1994 invalidity component and the Pre 1 July 1994 Concessional component (note: the last three components are rare).

The taxable component is made up of everything that is not in the tax exempt component. Included in this component are all concessional contributions, the components previously known as the Post 30 June 1983 component and the non-qualifying component as well as earnings on all the components of the fund.

The following tables set out how lump sum withdrawals from super are taxed.

Lump Sums (taxed source)

Age of member at time of withdrawal	Tax Exempt/ Free Component	Taxable Component
60 or over	Tax free	Tax free
Between preservation age and 60	Tax free	• Tax free on amounts up to Low Rate Cap (See table below) • Amounts in excess of low rate cap taxed at 15% plus Medicare levy
Under preservation age	Tax free	Up to 20% plus Medicare levy

The Low Rate Cap for 'taxed fund' lump sum withdrawals is:

Low Rate Cap Income Year	Amount of Cap
2014 – 15	$185,000
2015 – 16	$195,000
2016 – 17	$195,000
2017 – 18	$200,000

Note the Medicare levy is 2% for the financial years of 2014-15, 2015/16 and 2016/17.

Lump Sums (untaxed source)

Age of member at time of withdrawal	Tax Exempt/ Free Component	Taxable Component
60 or over	Tax free	15% plus Medicare levy up to untaxed plan cap (see table below) 45% on amounts above
Between preservation age and 60	Tax free	• 15% on amounts up to Low Rate Cap ($200,000 for 2017-18). Amounts above low rate cap and below untaxed plan cap (see table below) taxed at 30% plus Medicare levy • Amounts above untaxed plan cap 45% plus Medicare levy
Under preservation age	Tax free	30% plus Medicare levy up to untaxed plan cap (see table below) Amounts above untaxed plan cap taxed at 45% plus Medicare levy

The Untaxed Plan Cap for ‘untaxed fund’ lump sum withdrawals is:

Untaxed Plan Cap Income Year	Amount of Cap
2014 – 15	$1,355,000
2015 – 16	$1,395,000
2016 – 17	$1,415,000
2017 – 18	$1,445,000

Note the Medicare levy is 2% for the financial years of 2014-15, 2015/16 and 2016/17.

Income Streams (taxed source)

- Payments to superannuants aged 60 or more are exempt income and so are free from income tax up to a ‘Transfer Balance Cap’.
- Payments to superannuants under 60 are taxable less an amount, representing the proportion of their tax exempt component. An income tax offset of 15% applies to the remainder of the income
- Taxation of payments to a reversionary recipient is dependent on the age of the superannuant and the reversionary recipient at the time of death - (see Death Benefits)
- Payments to non-dependants or to the estate are made as a lump sum and tax at the rate of 15% plus Medicare levy is payable on the taxable component - (see Death Benefits)

Transfer Balance Cap (tax free Income Streams)

From 1 July 2017 a general ‘Transfer Balance Cap’ was introduced which limits the amount individuals can transfer into a tax free income stream. The Transfer Balance Cap for 2017/18 is $1.6M and is indexed annually in line with increases in the Consumer Price Index (CPI) in increments of $100,000.

Individuals have a ‘Personal Transfer Balance Cap’ which states how much of the general Transfer Balance Cap they have utilised. The Personal Transfer Balance Cap can change over time depending on certain types of credits to and/or debits from tax free income streams used.

Income Streams (untaxed source)

- Payments to superannuants aged 60 and over are taxed at marginal tax rates but a 10% offset applies
- Payments to superannuants under 60 are taxed at marginal tax rates with no offset
- Medicare levy applies if amounts are assessable

Payments above $100,000

Note – From 1 July 2017, equivalent measures were introduced to align recipients of non-commutable Defined Benefit pensions with those subject to the tax free income stream transfer cap. Defined Benefit pension payments above $100,000 per annum are subject to additional taxation for those aged 60 or over, or for those under age 60 from death benefit income stream where the deceased member was age 60 or over at the time of death. The additional tax treatment depends on the amounts of the untaxed, taxed or tax free components.

- Where payments above $100,000 are from a taxed source made up of either tax free and/or taxable component (taxed element), 50% of the amount above $100,000 is included as assessable income and taxed at the member’s marginal tax rate.
- Where payments from an untaxed source i.e. a taxable component (untaxed element) the excess continues to be included as assessable income but are not eligible for the 10% pension offset.
- Where payments are received from a concessionally taxed capped defined benefit and is made up of both a taxed and untaxed source at the same time, the payment from the taxed source is assessed against the defined benefit income cap first.

Death Benefit Payments

Taxed source

A lump sum death benefit to a dependant of the member is tax free. If the benefit is paid to a non-dependant or to the member’s estate it can only be paid as a lump sum and tax of 15%* applies to the taxable component. No tax applies to the Tax Exempt component.

If paid as an income stream and the member was aged at least 60 years at death, the payment would be tax exempt to a reversionary beneficiary. If less than 60 at the time of death the taxable component of the income stream would be taxed at the recipients MTR* however a 15% offset would apply. Once the reversionary reaches age 60 no tax is payable on the whole amount.

If paid to a dependant child the above would apply only until the child was 25, unless the child was permanently disabled, when the balance would be paid as a lump sum tax free. If the payment is made to a child who satisfies the definition of disability, the payments can continue indefinitely.

If the payment is made as an income stream, even if it had not been commenced at the time of death, the above applies.

Untaxed source

Paid to a non-dependant, the whole taxable component is taxed at 30% plus Medicare levy.

Paid to a reversionary beneficiary aged 60 years or more – the income is taxed at MTR* with a 10% offset applying. If the member was less than 60 at the time of death the 10% offset will not apply until the reversionary beneficiary turns 60. Pensions cannot revert to non-dependents and only lump sums can be paid if applicable.

It is important to note that Death Benefit payments received count towards the beneficiary’s Personal Transfer Balance Cap however the amount won’t be credited to the Personal Transfer Balance until 12 months after the death of the original recipient.

From 1 July 2017 a death benefit income stream can only be commuted to facilitate the commencement of a new death benefit income stream, with the same or different provider, or be paid as a death benefit lump sum.