

SUPERCENTRAL FAQs

Lump Sum Payments

This information provides a basic overview of the restrictions placed on trustees when paying lump sum benefits to members. The information provided is of a general nature only and should not be relied upon in lieu of specific professional advice.

Superannuation interests

The superannuation interest which a member has in their superannuation fund is, for the purposes of determining whether and to the extent they can access their benefit, divided into three elements as follows: A member will be considered retired if:

a Preserved element

That part of a member's superannuation interest which cannot be accessed until the member meets an unrestricted condition of release set out in the superannuation legislation.

b Restricted non-preserved element

That part of a member's superannuation interest which while not generally accessible (so it is like the preserved element) can be accessed if a member's gainful employment is terminated.

Note

This element of a benefit will only exist if certain type of employer contributions were made in respect of a member before 1 July 1999. Further, the dollar value of this element was determined at 1 July 1999 and cannot change (though it will eventually form part of the unrestricted non-preserved component as and when the member satisfies an unrestricted release condition). Most members will not have this type of element.

c Unrestricted non-preserved element:

That part of a member's superannuation interest which can be accessed at any time.

The superannuation interest of most members will consist only of preserved element. If and when a member satisfies an unrestricted release condition, the preserved element converts to being an unrestricted non-preserved element.

For members who are retired for superannuation purposes before age 65, and for whom contributions are being made, such members may have both unrestricted non-preserved element and also a preserved element. The dollar amount of their superannuation when they retired is unrestricted non-preserved. Any increase in the value of their accumulation phase superannuation since they retired (whether due to earnings or contributions) is preserved.

On attaining age 65, all accumulation phase superannuation becomes unrestricted non-preserved and any increase in accumulation phase superannuation (whether due to earnings or contributions) is also unrestricted non-preserved.

An unrestricted release condition is a condition which imposes no restriction on either the amount or form of payment of the benefit. The most commonly occurring unrestricted release conditions are attainment of age 65 and retirement. **"Retirement"** for superannuation purposes has been given a special meaning. A member will be considered to be retired if

- a** An arrangement under which the member was gainfully employed has terminated on or after the member attained age 60; or
- b** An arrangement under which the member was gainfully employed has terminated before the member attained age 60 and the trustee of the superannuation fund is reasonably satisfied that member does not intend to recommence gainful employment either on a full-time or part-time basis.

Note

- Termination gainful employment in this context requires complete cessation of employment; merely reducing your current gainful employment to less than 10 hours per week will not be sufficient. However terminating employment with one employer to commence employment with another employer will constitute termination of employment.
- Once a member attains age 65 – the concept of retirement for superannuation purposes is irrelevant as merely being age 65 or more is an unrestricted release condition.
- If a member has never been in gainful employment (whether in Australia or elsewhere), the retirement release condition cannot apply to the member.

A restricted release condition is a condition which imposes a restriction either as to the amount of the benefit which can be paid or the form of payment of the benefit.

When can a lump sum benefit be paid?

A member may only receive payment of a lump sum benefit if one of the following conditions of release are met and the terms of the trust deed allow for payment of lump sum benefits:

- a** The member attains age 65 years
- b** The member has previously attained age 65 years
- c** The member attains age 60 (but not yet 65 years) and is retired for super purposes
- d** The member dies
- e** The member is permanently incapacitated
- f** The member is diagnosed with a terminal medical condition
- g** The member requests release on compassionate grounds or because of severe financial hardship (the amount of the benefit which can be paid in these circumstances is restricted)

Note

That different conditions of release may enable a member to access a benefit by way of an income stream.

Tax on lump sum payment – 2024-25 financial year

A member's superannuation benefit will for taxation purposes generally consist of two components: a taxable component, and a tax-free component. In certain circumstances the benefit may consist entirely of taxable component or entirely of tax-free component. Each component has a separate tax treatment.

a Tax-free component

No tax is payable on the tax-free component when it is paid to the member.

b Taxable component

Whether any tax is payable on the taxable component depends both on the age of the member and the condition of release allowing the member to access the benefit.

Also, it will depend on whether the taxable component consists entirely of a **"taxed element"** or includes an **"untaxed element"**. The tax rates which apply if the taxable component consists only of **"taxed element"** are set out below. If the taxable component consists of or includes an **"untaxed element"** higher rates of tax will apply.

However, as the superannuation fund is at taxed superannuation fund only lump sum death benefits where the deceased member died before 65 may have an untaxed element. A lump sum death benefit will have an untaxed element if the Fund claimed, in respect of any tax year, a tax deduction for the insurance premiums for life insurance cover.

Member's Age/Access Condition	Tax rate on taxable component
Age 60 +	Nil
Age 59 or less	Tax element - taxed at 20%
Terminal Medical Condition	Nil
Severe Financial Hardship or Compassionate Release If received: <ul style="list-style-type: none">• Before age 60• After Age 60	Tax element - taxed at 20% Tax free
Temporary Resident Permanently Departing Australia (Non-Working Holiday Makers)	Taxed Element - 35%
Temporary Resident Permanently Departing Australia (Working Holiday Makers)	Taxed Element - 65%

Note

The basic Medicare Levy of 2% must be applied to the above rates. However, the basic Medicare Levy does not apply to lump sums taxed as **“Temporary Resident Permanently Departing Australia”**.

Untaxed element of the taxable component

In certain circumstances, the taxable component may consist of or include an **“untaxed element”**. In the case of taxed superannuation funds, such as SMSFs, only certain kinds of lump sum death benefits can have an untaxed element. This will be the case if the member died before age 65 and the superannuation fund claimed a tax deduction either for:

- a** The premiums of the life cover on the member – (whether in the financial year in which death occurs or a previous financial year)
- b** For the future service component of the death benefit of the member.

It does not matter that the life cover may have been terminated before the death of the member. A higher rate of will apply to the portion of the taxable component which is an **“untaxed element”**.

Medicare levy

Where a lump sum benefit is taxable, the basic Medicare levy of 2% will also apply. No Medicare levy applies to lump sums paid to temporary residents who are permanently departing Australia as these payments are subject to a special tax and not normal income tax.

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