

Death Benefits from Superannuation

SUPER RETIREMENT SOLUTIONS

Specialists in Self Managed Superannuation
A division of McConachie Stedman

Important: This fact sheet applies primarily for superannuation death benefits paid where a person dies on or after 1 July 2007. This is an overview and not a comprehensive guide.

Death benefits—taken as a lump sum

Taxation

Component	Lump sum to Tax dependant	Lump sum to non-tax dependant
Tax Free	Tax Free	Tax Free
Taxable	Tax Free	Taxed Element —15%* Untaxed Element —30%*

* Medicare levy may also be payable

Proportion of components

Note the proportion of tax free and taxable component of a death benefit lump sum paid to the beneficiary will depend on whether the lump sum benefit is being paid from accumulation or pension phase:

- accumulation phase: tax free and taxable component based on tax free and taxable proportion of entire death benefit
- Pension phase: tax free and taxable component based on tax free and taxable proportion of purchase price at commencement of pension

Who is a tax dependant?

A tax dependant includes any of the following:

- Spouse, including de facto or former
- Child under 18 (including ex nuptial or adopted)
- Financial dependant
- Interdependency relationship

When the lump sum is paid to the deceased member's estate

It is the responsibility of the estate to pay tax. The estate is not required to pay Medicare levy.

Superannuation death benefits which include life insurance proceeds

If insurance premiums have been allowed as a deduction against the taxed superannuation fund's assessable income, part of the taxable component will comprise an untaxed element.

To determine the taxed and untaxed element, the following steps are required:

Step 1: Calculate the taxable component of the death benefit. Ensure you include any anti-detriment benefit payable in the death benefit amount.

Step 2: Reduce the death benefit using the following formula:

$$\text{Reduced death benefit} = \frac{\text{days in eligible service period ('ESP')}}{\text{days in ESP} + \text{days from death to retirement age}} \times \text{Death benefit}$$

Step 3: Calculate the taxable component of the reduced death benefit as per step 2. This will be the taxed element of the taxable component

Step 4: Calculate the element untaxed of the taxable component by subtracting the element taxed (per Step 3) from the total taxable component calculated in Step 1.

Death benefits—taken as a pension

Who can receive superannuation death benefits as an income stream?

If a person dies on or after 1 July 2007, only the following can have superannuation death benefits paid as an income stream:

- Spouse, including a de facto spouse
- Child under 18 (including adopted, step or ex-nuptial) or a child suffering a disability
- financial dependant*
- interdependency relationships

* Important: Where a child is 18 or over, but is also a financial dependant, a death benefit pension can only be paid to that child if they are under 25 at the time of the deceased's death.

Additional restrictions for children

Where a death benefit pension is paid to a child, it can only be paid until age 25 at which time it must be paid out as a tax free lump sum. The exception is if the child suffers from a disability.

Taxation of death benefit pension payments from a taxed source

Age of deceased at death	Beneficiary age during death benefit pension	Taxation of pension payment to beneficiary
60 or more	Any age	Tax free
Less than 60	Less than 60	Taxable component of pension —Marginal Tax Rate* Tax free component of pension —tax free
	60 or more	Tax free

* Eligible for 15% tax offset. Medicare levy also applies.

Proportion of components

Note the proportion of tax free and taxable component of a death benefit pension will depend on whether the death benefit proceeds were in accumulation or pension phase:

- Accumulation phase: tax free and taxable component based on tax free and taxable proportion of entire death benefit.
- Pension phase: tax free and taxable component based on tax free and taxable proportion of purchase price at commencement of original pension that was being paid to the deceased.

Lump sum commutations from death benefit pensions

- If lump sum occurs within 6 months of death or 3 months of probate, lump sum is tax free where paid to a tax dependant.
- If lump sum occurs outside the above period, the lump sum is taxed as a normal superannuation benefit unless it is paid because someone turns 25, or before they turn 25, or to a permanently disabled person.

Dependants for superannuation, tax and anti-detriment benefits

Relationship	Super dependant?	Tax dependant?	Anti-detriment payable?
Spouse	Yes	Yes	Yes
De facto spouse	Yes	Yes	Yes
Former spouse	No	Yes	No
Child under 18	Yes	Yes	Yes
Child 18 or more	Yes	No	Yes
Financial dependant	Yes	Yes	Yes
Interdependency	Yes	Yes	No

Important: A person can satisfy more than one relationship, eg. a financially dependant adult child.

To find out more information, please contact our Super Retirement Solutions staff.



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