



Australian Government
Australian Taxation Office



Calculating the components of a super benefit


About this guide

The information in this guide is for superannuation (super) funds that pay a super benefit.


As a super fund trustee or administrator, you need to be aware of the rules that govern the calculation and payment of benefits. This guide will assist you in understanding these rules.


You'll find out how to identify how much of the benefit is tax-free and how much is taxable. You need to do this so that you can work out the correct amounts to withhold for tax purposes and correctly report the payment to your member and the Tax Office.

Throughout this guide you will find important notes (look for the  symbol) that will help you with key information. You will also find 'more information' boxes (look for the  symbol) that will show any further steps you may need to take or supplementary information we recommend you refer to.

 In addition to the information in this guide, you may find the following online calculators helpful in calculating the components of a super benefit:

- [Crystallisation calculator](#) – for help calculating the tax-free component of a super interest as at 30 June 2007, including any pre-July 1983 component
- [Superannuation benefit component calculator](#) – for help determining the tax-free component and taxable component proportions of a super interest.

 When we refer to you or your fund in this guide, we're referring to you as a superannuation fund or provider, a retirement savings account provider (RSA), approved deposit fund or as a self managed superannuation fund (SMSF) trustee or administrator.

 This publication does not provide information about your PAYG withholding obligations. It does, however, direct you to the relevant schedule and tax table for each benefit.

 For information on the terms used in this guide see the [Super terms explained](#).

Components of a super benefit

When calculating a super benefit, you need to identify – and calculate the value of – the various components that make up the benefit. To begin with, this involves determining the member's [super interest](#).

Determining a super interest

A member's super interest is defined as their 'interest in a superannuation fund'. Generally, an account will constitute an interest in the fund. There are special ways to value certain interests such as some income streams, these are explained later in the document.

What is a super benefit?

Once you've determined a member's interest, you can pay a super benefit from their interest.

A super benefit can be paid as either a super income stream benefit or as a super lump sum benefit. Special rules apply to how you pay super income streams. Lump sums are generally one off payments. Both income streams and lump sums are concessional taxed. However the tax treatment of each component can differ (for more information see [How your super payout is taxed](#)).

A super benefit is made up of:

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

What is the tax-free component?

A tax-free component is the part of a benefit that is tax-free and does not count towards a member's assessable (or taxable) income.



The value of the tax-free component is the total value of:

- the contributions segment, and
- the crystallised segment.

What is the taxable component?

The taxable component is the part of the super benefit that is generally taxable. It may include two parts – one where tax has been paid by the fund or scheme and one where tax has not yet been paid. These are called the element taxed in the fund and the element untaxed in the fund respectively.

- **Elements** taxed in the fund come from funds that have paid tax on contributions and earnings, for example most private sector schemes.
- **Elements** untaxed in the fund come from untaxed super schemes such as public sector schemes.



The value of the taxable component of a super interest is the total value of the interest minus the tax-free component.

Calculating the components of a super benefit – a summary

This section provides a summary of the main steps involved in calculating the components of a super benefit. More detailed information about how to calculate various types of benefits can be found later in this document.

Before paying a super benefit, you need to calculate its tax-free and taxable components.

The taxable component is the amount remaining after you have worked out the tax-free component – so you'll need to calculate the tax-free component first.

To [calculate the tax-free component](#) you need to work out the value of the contributions and the crystallised segments:

- The contributions segment is simply the combined value of all contributions made after 1 July 2007 that have not been, and will not be, included in your fund's assessable income.
- The crystallised segment amount is the total of the:
 - pre-July 1983 component
 - concessional component
 - post-June 1994 invalidity component
 - undeducted contributions, and
 - capital gains tax (CGT) exempt component.

that, in most cases, existed immediately prior to 1 July 2007.

The tax-free component is the value of the crystallised and the contributions segments combined.

The [taxable component](#) of a member's super interest is calculated by simply subtracting the tax-free component from the total value of the super interest.

When paying the benefit, you must generally apply the proportioning rule. This means that the benefit must be made up of the same proportion of tax-free and taxable components as the total value of the member's super interest.

What is the proportioning rule?

The benefits you pay must be made up of the same proportion of tax-free and taxable components as the total value of the member's super interest. That is, if the total value of the member's super interest is made up of a 30% taxable component and a 70% tax-free component, the benefit you pay from it must also be made up of a 30% taxable component and a 70% tax-free component.



For certain benefits, such as disability lump sum benefits, the proportioning rule is modified. (See the relevant sections below for more information.)

When do I need to calculate the components?

Generally, you must calculate the components of a super benefit just before you pay it. If you pay the benefit as an

income stream, you must calculate the components when the income stream starts.

Note, you must calculate the crystallised pre-July 1983 component by 30 June 2008.

How to calculate the tax-free component of a super benefit

The tax-free component of a super benefit is made up of:

- the contributions segment, and
- the crystallised segment.

To calculate the tax-free component, you need to work out the value of the contributions and the crystallised segments separately. The combined value of both is the value of the tax-free component.

What is the contributions segment?

The contributions segment is generally made up of all contributions made after 1 July 2007 that have not been, and will not be, included in the fund's assessable income. These are most commonly member contributions where no tax deduction has been claimed.

How to calculate the contributions segment

To work out the value of the contributions segment, simply calculate the combined value of all the contributions that make up this segment for which a deduction has not been claimed.

What is the crystallised segment?

The crystallised segment is the total of the following components:

- concessional component
- post June 1994 invalidity component
- undeducted contributions
- capital gains tax (CGT) exempt component, and
- pre-July 1983 component.



For **untaxed funds**, there is no pre-July 83 component in relation to income streams, the pre-July 83 component is only calculated when a lump sum super benefit is withdrawn or rolled over into a taxed fund.



For more information about what each of these components mean see the [Super terms explained](#).

How to calculate the crystallised segment



For help calculating the crystallised segment go to our online [Crystallisation calculator](#).

To calculate the crystallised segment, you must first 'assume' that an eligible termination payment (ETP) representing the full value of the member's super interest was made to the member just before 1 July 2007.

(That is, the value of this notional ETP should be equivalent to the value that a member's super interest would have been if actually paid out as an ETP at 30 June 2007.)

You will need to work out the various components of the ETP. The components can include any or all of the following:

- undeducted contributions
- concessional component
- post-June 1994 invalidity component
- CGT exempt component, and
- pre July-1983 component.



For more information about each ETP component, see [Super terms explained](#).



For more information about calculating ETP components for ETPs made before 1 July 2007, see [ETP calculator for employers and superannuation funds](#).

Knowing the ETP components is important for calculating the pre-July 1983 component, which is the next step in the process.

You'll need to calculate the pre-July 1983 component amount twice, using a different formula each time (see example

below). The pre-July 1983 component used in the next step of the calculation will be the lesser of these two amounts.

Finally, add the value of the pre-July 1983 component to the value of the following ETP components (where they are part of the ETP):

- undeducted contributions
- concessional component
- post-June 1994 invalidity component, and
- CGT exempt component.

The total of these amounts represents the crystallised segment.



You must calculate the crystallised pre-July 1983 component by 30 June 2008. If you fail to meet this deadline, you may be subject to a penalty.

EXAMPLE

Mary joined her super fund on 1 July 1970. Mary's total service period is 13,514 days and her pre-July 1983 days are 4,748.

On 30 June 2007, the value of Mary's super was \$200,000, which was mainly employer contributions but also included:

- undeducted contributions of \$10,000
- a concessional component of \$20,000
- a post-June 1994 invalidity component of \$15,000, and
- a CGT exempt component of \$50,000.

Step 1

Assume a notional ETP of \$200,000, which is equal to the value of Mary's super interest just before 1 July 2007.

Steps 2 and 3 require you to calculate the pre-July 1983 component twice, using a different formula each time. The pre-July 1983 component used in the calculation will be the lesser of these two amounts.

Formula abbreviations

ETP is the amount of the ETP

C is the concessional component

IC is the post-June 1994 invalidity component

CGT is the CGT exempt component

Pre-July 83 is the number of whole days in the eligible service period that occurred before 1 July 1983, and

Total Period is the number of whole days in the eligible service period.

Step 2

Calculate the pre-July 1983 component using the following formula:

$$(\text{ETP} - \text{C} - \text{IC} - \text{EC} - \text{CGT}) \times (\text{Pre-July 83} / \text{Total period})$$

$$(\$200,000 - \$20,000 - \$15,000 - \$50,000 - \$0) \times (4748 / 13514) = \$40,404$$

Step 3

Calculate the pre-July 1983 component using the following formula:

$$(\text{ETP} - \text{C} - \text{IC} - \text{EC} - \text{CGT}) - \text{undeducted contributions}$$

$$(\$200,000 - \$20,000 - \$15,000 - \$50,000 - \$0) - \$10,000 = \$105,000$$

Step 4

Mary's pre-July 1983 component will be the lesser of the amounts calculated in steps 2 and 3 which is \$40,404.

Step 5

Add Mary's pre-July 1983 component of \$40,404 to the following components of the ETP:

- concessional component of \$20,000
- post-June 1994 invalidity component \$15,000
- undeducted contributions of \$10,000, plus
- CGT exempt component of \$50,000.

Pre-July 1983 component + C + IC + CGT + undeducted contributions = crystallised segment

$$\$40,404 + \$20,000 + \$15,000 + \$10,000 + \$50,000 = \$135,404$$

The total of these amounts, \$135,404, represents the crystallised segment of the tax-free component of the super interest.

How to calculate the taxable component of a super benefit?

The taxable component of a member's super interest is calculated by simply subtracting the tax-free component from the total value of the super interest.

The taxable component of a member's super interest may consist of an element that is taxed and/or untaxed in the fund. If the source of the benefit is untaxed, for example from an unfunded public sector fund or a lump sum insurance benefits where no tax deductions have been claimed on insurance premiums, the taxable component may also contain an element untaxed in the fund.

Examples of how to calculate super benefit components using the proportioning rule

This section explains how to calculate the tax-free and taxable components for the following types of super benefits:

- income streams
- lump sum benefits consisting entirely of an element taxed in the fund, and
- lump sum benefits paid from super that existed just before 1 July 2007.

Calculating the components of an income stream benefit

To calculate the components of an income stream benefit, first calculate the proportion of tax-free and taxable components of the member's super interest. You must do this at the time the income stream starts.

You then apply these proportions when calculating the tax-free and taxable components of the member's income stream benefit.



These proportions will continue to apply to all benefits paid from the income stream, including benefits arising from the commutation of the income stream.



For PAYG withholding obligations, refer to [Schedule 34 – Tax table for superannuation income streams](#) (NAT 70982).

EXAMPLE

Peter is 56 years of age and his super income stream starts on 1 September 2007.

When his income stream starts, Peter has \$400,000 in his super fund. This amount includes:

- a tax-free component of \$100,000, and
- a taxable component of \$300,000.

Peter uses all of his super to purchase the income stream and receives a super income stream benefit of \$2,000 on 15 September 2007.

Step 1

Calculate the tax-free component proportion and the taxable component proportion of Peter's super when the income stream started:

$$\text{Tax-free component \%} = \text{Tax-free component} / \text{Value of the interest} = \$100,000 / \$400,000 = 25\%$$

$$\text{Taxable component \%} = 75\% (100\% - 25\%)$$

Step 2

Apply the proportions to calculate the tax-free component and the taxable component of Peter's super income stream benefit as follows:

Tax-free component = \$500 (\$2,000 x 25%)

Taxable component = \$1,500 (\$2,000 – \$500)

Calculating the components of a lump sum benefit consisting entirely of an element taxed in the fund

To calculate the components of a lump sum super benefit, first calculate the proportion of tax-free and taxable components of the member's super interest. You must do this just before the lump sum is paid.

You then apply these proportions when calculating the tax-free and taxable components of the member's lump sum benefit.



The proportions will need to be recalculated each time a lump sum is paid.



For PAYG withholding obligations, refer to [Schedule 33 – Tax table for superannuation lump sums](#) (NAT 70981).

EXAMPLE

Peter is 56 years of age and on 1 December 2007 withdraws a lump sum benefit of \$50,000 from his super. Just before the lump sum is paid, the value of Peter's super interest is \$400,000.

Peter's super interest includes a:

- tax-free component of \$100,000, and
- taxable component of \$300,000.

Step 1

Calculate the tax-free component proportion and the taxable component proportion of Peter's super interest just before the lump sum is paid:

Tax-free component % = (Tax-free component / Value of the interest) = (\$100,000 / \$400,000) = 25%

Taxable component % = 75% (100% – 25%)

Step 2

Apply the proportions to calculate the tax-free component and the taxable component of Peter's lump sum benefit as follows:

Tax-free component = \$12,500 (\$50,000 x 25%)

Taxable component = \$37,500 (\$50,000 – \$12,500)

Calculating the components of a lump sum benefit paid from a super interest that existed just before 1 July 2007

To work out the tax-free component of a lump sum benefit paid from a super interest that existed just before 1 July 2007, you must use a modified version of the proportioning rule. This allows you to take into account the pre-July 83 component for an element untaxed in the fund.

Using the modified proportioning rule, the tax-free component of the benefit is increased and the element untaxed in the fund is decreased by the lesser of these amounts:

- i) the amount of the element untaxed in the fund
AND
- ii) the amount worked out by applying the following formula:

Original tax-free component + Untaxed element

x

Number of pre-July 1983 days in service period ÷ Total no of days in service period

where:

The sum of **original tax-free component and untaxed element** is calculated under the general (not modified) proportioning rule.



If any part of the lump sum benefit includes a crystallised pre-July 83 component, the entire amount of the lump sum benefit that is attributable to the crystallised segment of the super interest is disregarded for the purposes of working out the tax-free component under this formula.



For PAYG withholding obligations, refer to [Schedule 33 – Tax table for superannuation lump sums](#) (NAT 70981).

EXAMPLE

Peter is 56 and he withdraws a lump sum super benefit of \$50,000 on 1 January 2008. Just before this benefit is paid, the value of Peter's super was \$400,000. This includes a:

- tax-free component of \$100,000, and
- taxable component of \$300,000 consisting solely of an element **untaxed** in the fund.

Peter's total eligible service period is 14,245 days and the number of days pre-July 83 is 4250 days.

<p>Step 1</p> <p>Calculate the tax-free and taxable proportions of Peter's super interest just before the benefit is paid:</p> <p>(Tax-free component / Value of the interest) = (\$100,000 / \$400,000) = 25%</p> <p>The taxable component % = 75% (100% – 25%)</p>
<p>Step 2</p> <p>Apply that proportion to calculate the tax-free component of Peter's \$50,000 lump sum as follows:</p> <p>\$50,000 x 25% = \$12,500</p> <p>The taxable component, element untaxed in the fund, of Peter's lump sum benefit is \$37,500 (\$50,000 – \$12,500).</p>
<p>Step 3</p> <p>The tax-free component of Peter's lump sum is increased by the lesser of:</p> <p>(i) \$37,500 (amount of the element untaxed) AND (ii) \$12,500 + \$37,500 x (4250 ÷ 14245) = \$14,918 using the following formula which is a modification of the proportioning rule:</p> <p>Original tax-free component + untaxed element (as calculated under the general proportioning rule) x No of pre-July 1983 days in service period ÷ Total no of days in service period</p> <p>The tax-free component is \$12,500 + \$14,918 = \$27,418</p> <p>The taxable component is adjusted to \$37,500 – \$14,918 = \$22,582, consisting solely of an element untaxed.</p>

Disability super benefits

What is a disability super benefit?

A disability super benefit is a benefit that is paid to a person:

- suffering from ill-health (whether physical or mental), and
- where two legally qualified medical practitioners have certified that it is unlikely the person can ever be gainfully employed in a capacity for which they are reasonably qualified because of education, experience or training, due to ill-health.

A disability super benefit may be paid as either an income stream or a lump sum.

The **general proportioning rule** applies when calculating the components of a disability income stream benefit.

A **modified version of the proportioning rule** applies when calculating the components of a lump sum benefit.



For more information on disability super benefits see [Understanding disability pension payments](#).

Calculating the components of a disability income stream benefit

Calculating the components of a disability income stream benefit is no different to calculating the components of a normal income stream benefit – the general proportioning rule applies.

To calculate the components of a disability income stream benefit, first calculate the tax-free component and the taxable component proportions of the member's super interest. You must do this at the time the income stream starts.

Apply these proportions to calculate the tax-free component and the taxable component of the member's income stream benefit.



These proportions will continue to apply to all benefits paid from the income stream, including benefits arising from the commutation of the income stream.



For PAYG withholding obligations, refer to [Schedule 34 – Tax table for superannuation income streams](#) (NAT 70982).

Calculating the components of a disability lump sum benefit

When calculating the components of a disability lump sum benefit, you must use a modified version of the proportioning rule to work out the tax-free component proportion. The taxable component is worked out as usual once the final tax-free amount is calculated.

Using the modified proportioning rule increases the tax-free component of the benefit from what it would be under the general proportioning rule.

The tax-free component of a disability lump sum benefit is the sum of the tax-free component worked out under the general proportioning rule and the amount worked out under the following formula:

Amount of benefit x Days to retirement ÷ (Service days + Days to retirement)

- 'days to retirement' is the number of days from the day on which the member stopped being capable of being gainfully employed to the day on which they would have retired (usually age 65), and
- 'service days' is the number of days in the service period for the lump sum.



For PAYG withholding obligations, refer to [Schedule 33 – Tax table for superannuation lump sums](#) (NAT 70981).

Death benefits

This section explains the various types of death benefits and how to calculate their tax-free and taxable component proportions. The types of death benefits covered include:

- income stream death benefits (general)
- reversionary income stream death benefits
- income streams that have been commuted
- lump sum benefits where no tax deductions have been claimed on insurance premiums, and
- lump sum benefits where tax deductions have been claimed on insurance premiums.

What is a super death benefit?

A super death benefit is a payment you make to a person or to a trustee of a deceased estate because the member has died. A super death benefit may be paid either as an income stream or a lump sum.


Dependants of the deceased may be paid either a super income stream or a lump sum or both.

Non-dependants and trustees of deceased estates can only be paid in the form of a lump sum benefit.



Transitional arrangements apply to non-dependants who commenced a death benefit income stream prior to 1 July 2007. A death benefit income stream that was being paid to a non-dependant prior to 1 July 2007 is taxed in the same

way as a death benefit income stream paid to a dependant

 Lump sum super death benefits paid to non-dependants of Australian Defence Force and police personnel who have died in the line of duty will receive the same concessional tax treatment as if the benefit was paid to a dependant.

Who is a dependant?

A death benefit dependant is:

- the deceased person's spouse or de facto spouse
- the deceased person's former spouse or former de facto spouse
- a child of the deceased under 18 years of age
- any other person who is financially dependent on the deceased at the time of death, or
- any other person with whom the deceased had an interdependency relationship just before he or she died.

What is an interdependency relationship?

An interdependency relationship exists where:

- two persons (whether or not related by family) live together, and
- they have a close personal relationship, and
- one or each of them provides the other with financial and domestic support and personal care.

 Children over 18 must be financially dependent on the deceased to qualify as dependants.

Who is a non-dependant?


Any person who does not fall into one of the categories of dependant listed above is classified as a non-dependant for super death benefit purposes.

How to calculate the components of a death benefit

Calculating the components of a death benefit income stream is no different to calculating the components of a member income stream benefit – the general proportioning rule applies.


First calculate the tax-free component and the taxable component proportions of the deceased member's super.

Apply these proportions to calculate the tax-free component and the taxable component proportions of the death benefit.

 These proportions will continue to apply to all benefits paid where the benefit is an income stream, including benefits arising from the commutation of the income stream.

Calculating the components when paying an income stream death benefit

When calculating the components of a death benefit income stream benefit, you must use the general proportioning rule for both the tax-free and taxable components (see [How to calculate the components of a death benefit](#) above).

 For PAYG withholding obligations, refer to [Schedule 34 – Tax table for superannuation income streams](#) (NAT 70982).

EXAMPLE

Mary died on 1 October 2007. She was aged 58 at the time of her death.

Just before her death, Mary had a super interest of \$400,000, consisting of a tax -free component of \$100,000 and a taxable component of \$300,000.

On 8 October 2007, a super income stream death benefit of \$12,000 is paid to Gary, who is a dependant of Mary.

Step 1

Calculate the tax-free component proportion and the taxable component proportion of the super interest just before the benefit is paid:

Tax-free component % = (Tax-free component/ Value of the interest) = (\$100,000 / \$400,000) = 25%

Taxable component % = 75% (100% – 25%)

Step 2

Apply the proportions to calculate the tax-free component and taxable component of Gary's income stream benefit as follows:

Tax-free component = \$3,000 ($\$12,000 \times 25\%$)

Taxable component = \$9,000 ($\$12,000 - \$3,000$)

Calculating the components of a reversionary income stream death benefit

If the deceased person was receiving an income stream benefit at the time of their death, the components of the beneficiary's reversionary income stream must be proportioned as they were for the deceased's benefit.

EXAMPLE

Kate died on 1 October 2007. She was aged 61 at the time of her death.

Just before her death, Kate was in receipt of a super income stream with an annual payment amount of \$18,000. The tax-free and taxable components of her income stream were previously calculated as follows:

- Tax-free component proportion = 25%
- Taxable component proportion = 75%

On 8 October 2007, a reversionary super income stream death benefit with an annual payment amount of \$12,000 is paid to Larry, who is a dependant of Kate.

As the reversionary income stream paid to Larry is considered to be paid from the same interest that Kate's income stream was paid, the proportions of tax-free and taxable components are exactly as they were for Kate's benefit.

Therefore, the tax-free and taxable components of Larry's reversionary income stream are:

- Tax-free component = $\$12,000 \times 25\% = \$3,000$
- Taxable component = $\$12,000 \times 75\% = \$9,000$ ($\$12,000 - \$3,000$)

Calculating the components of a lump sum death benefit - no tax deductions claimed on insurance premiums

Where no tax deductions have been claimed on insurance premiums for a lump sum death benefit, there will be no effect on how you calculate the benefit – the general proportioning rule applies.



For PAYG withholding obligations, refer to [Schedule 33 – Tax table for superannuation lump sums](#) (NAT 70981).

Calculating the components of a lump sum death benefit - tax deductions claimed on insurance premiums

Where a super fund has claimed, or intends to claim, tax deductions on premiums it pays on insurance policies to provide death benefits for its members, the element untaxed in the fund of a lump sum death benefit is increased to broadly reflect the insurance component of the benefit. This is done by reducing the element taxed in the fund of the taxable component (the element untaxed in the fund will be the balance of the component).

Calculate the tax-free and the taxable component proportions of the member's super interest just before the lump sum was paid.

Apply these proportions to calculate the tax-free component and taxable component using the general proportioning rule.

Adjust the element taxed in the fund as follows:

1) Work out the element taxed in the fund by applying the formula:

Amount of super lump sum x (service days / [service days + days to retirement])

- 'service days' is the number of days in the service period for the lump sum
- 'days to retirement' is the number of days from the day on which the deceased died to the deceased's last day before retirement.

2) Reduce this amount (but not below zero) by the tax-free component of the lump sum benefit (if any).



For PAYG withholding obligations, refer to [Schedule 33 – Tax table for superannuation lump sums](#) (NAT 70981).

EXAMPLE

Paul is a member of a super fund which claims tax deductions on premiums it pays on insurance policies to provide death benefits for its members.

The start date of Paul's service period is 10 August 1970 and his last day before retirement is 1 July 2011.

Paul dies on 1 July 2008. At the time of his death, Paul had a super interest of \$400,000, consisting of a tax-free component of \$100,000 and a taxable component of \$300,000. The super interest includes an insurance component paid by the insurer upon Paul's death.

On 4 July 2008, a lump sum death benefit of \$280,000 is paid to Susan, who is a non-dependant.

<p>Step 1</p> <p>Calculate the tax-free component and the taxable proportion of Paul's super interest just before the lump sum was paid:</p> <p>Tax-free component % = (Tax-free component / Value of the interest) = (\$100,000 / \$400,000) = 25%</p> <p>Taxable component % = 75% (100% – 25%)</p>
<p>Step 2</p> <p>Apply the proportions to calculate the tax-free component and taxable component of Susan's lump sum death benefit as follows:</p> <p>Tax-free component = \$70,000 (\$280,000 x 25%)</p> <p>Taxable component = \$210,000 (\$280,000 – \$70,000)</p>
<p>Step 3</p> <p>Adjust the element taxed in the fund as follows:</p> <p>a) Work out the element taxed in the fund by firstly applying the formula:</p> <p>Amount of super lump sum x (service days / [service days + days to retirement])</p> <ul style="list-style-type: none"> ■ 'service days' is the number of days in the service period for the lump sum ■ 'days to retirement' is the number of days from the day on which the deceased died to when the deceased would have retired <p>Paul's days to retirement are 1,095 and his service days are 13,841.</p> <p>Applying the formula : \$280,000 x (13,841 / (13,841 + 1,095)) = \$259,472</p> <p>b) Reduce this amount by the tax-free component of the lump sum benefit (if any).</p> <p>Element taxed in the fund = \$189,472 (\$259,472 – \$70,000)</p>
<p>Step 4</p> <p>Work out the element untaxed in the fund as the balance of the taxable component of the lump sum benefit:</p> <p>Element untaxed in the fund = \$210,000 – \$189,472 = \$20,528</p> <p>The components of the lump sum death benefit are as follows:</p> <p>Tax-free component = \$70,000</p> <p>Taxable component = \$189,472 (element taxed) and \$20,528 (element untaxed)</p>

Calculating the components when paying a commutation lump sum death benefit

If the deceased was receiving an income stream at the time of their death and the income stream is subsequently commuted to a lump sum, the components of the lump sum benefit must be proportioned as they were for the income stream.



For PAYG withholding obligations, refer to [Schedule 33 – Tax table for superannuation lump sums](#) (NAT 70981).

EXAMPLE

Penny died age 66 on 1 December 2007. At the time of her death, Penny was in receipt of an account based super income stream.

The tax-free and taxable components of her income stream were previously calculated as follows:

Tax-free component proportion = 25%
Taxable component proportion = 75%

On 11 December 2007, Penny's remaining account balance as at the time of her death of \$200,000 is paid to Brian as a lump sum. As the lump sum is considered to be a payment from the same interest from which Penny's income stream was paid, the proportions of tax-free and taxable components are exactly as they were for Penny's income stream.

Therefore, the tax-free component and the taxable component of Brian's lump sum death benefit are:

Tax-free component = \$200,000 x 25% = \$50,000
Taxable component = \$200,000 x 75% = \$150,000 (\$200,000 – \$50,000)

If Brian is a dependant of Penny the total benefit will be tax free in the hands of Brian. If Brian is a non-dependant the taxable component will be assessable income to Brian.

Transitional arrangements that apply to income streams that commenced before 1 July 2007

This section explains how to calculate the tax-free and taxable component proportions of an income stream benefit that commenced before 1 July 2007 before and after a trigger event occurs.

It includes how to:

- convert the deductible amount to a tax-free component
- calculate the components of an existing income stream before a trigger event
- calculate the components of an existing income stream after a trigger event
- calculate the components of a non account-based income stream after a trigger event, and
- pay an income stream super benefit after a trigger event.

Summary

The way you calculate the tax-free component of a super income stream benefit which commenced before 1 July 2007 will depend, in part, on whether or not a 'trigger event' has occurred.

If a trigger event has not occurred, the tax-free component is worked out using the annual deductible amount that applied to the benefit before the changes to the super law came into effect.

Once a trigger event occurs, you need to apply the proportioning rule when working out both the tax-free and taxable components for this and all subsequent super benefits for the member.

What is a trigger event?


There are four events which will trigger a change in the way the tax-free and taxable components are calculated:

- the fund member is 60 years or over at 1 July 2007
- the fund member turns 60
- the fund member dies, or
- the income stream is partially or wholly commuted.

Prior to 1 July 2007 the annual deductible amount of an annuity or super pension was excluded from a member's assessable income.

From 1 July 2007, the annual deductible amount will be converted into the tax-free component of the income stream benefit. The tax-free component is not assessable and is not exempt income (it is tax-free).

This means that the fund member will continue to receive the same tax-free treatment for their deductible amount.

 Fund members will not be able to claim the annual deductible amount of their income stream in the 2007–08 individual income tax return.

Converting the deductible amount to a tax-free component

From 1 July 2007, under the transitional arrangements you need to determine the tax-free component of each income

stream payment, rather than the deductible amount for the total payments received in the year as before 1 July 2007.

Before 1 July 2007, an annual deductible amount was calculated at the commencement of the super income stream and was evenly proportioned across the whole income year. This amount was the tax-free component of the income stream payment.

To calculate the tax-free component for each payment:

- work out the percentage each payment is of the total annual income stream
- multiply this percentage by the amount of one payment.

The taxable component is the amount remaining once you subtract the tax-free component.

Calculating the components of an existing income stream before a trigger event has occurred

This example applies to super income streams where the total benefit payment amount and the number of payments that will be made in the income year are known at the beginning of the income year.

EXAMPLE

Michael, aged 57, has a lifetime income stream that was in existence prior to 30 June 2007 and from which he has received at least one income stream payment before 1 July 2007.

The deductible amount for Michael's income stream was originally calculated as being \$4,000 per annum.

Michael's total annual income stream payment amount is \$24,000 which he receives in 12 equal monthly payments of \$2,000.

<p>Step 1</p> <p>Calculate what percentage each income stream benefit is of the total annual income stream payment amount:</p> <p>$\\$2,000 / \\$24,000 = 8.33\%$</p>
<p>Step 2</p> <p>Calculate the tax-free component and the taxable component of each of Michael's monthly payments as follows:</p> <p>Tax-free component = $\\$4,000 \times 8.33\% = \\333</p> <p>Taxable component = $\\$3,667 (\\$4,000 - \\$333)$</p>



For PAYG withholding obligations, refer to [Schedule 34 – Tax table for superannuation income streams](#) (NAT 70982).

Calculating the components of account-based income streams following a trigger event

This information relates to income streams where:

- there is an account balance attributable to the member (commonly referred to as account-based income streams)
- the benefit began on or after 1 July 1994, and
- the benefit was not purchased with a rollover.

Once a trigger event occurs, you need to apply the proportioning rule to work out the tax-free and taxable components of all subsequent super benefits.

The steps involved in this process are as follows.

1. Assume a notional ETP equal to the value of the underlying super interest is made just before the trigger event. The value of the super interest for an account-based income stream is the total value of lump sums that could be paid from the account.
2. Work out the unused UPP of the income stream, less any tax-free components of any benefits from the income stream after 1 July 2007.

3. work out the pre-July 1983 component of the notional ETP.

The unused UPP amount at Step 2 is the amount that has not been excluded from the assessable income of any taxpayer of any income year. The amount excluded from assessable income is generally the annual deductible amount of the income stream.

Generally, the **tax-free component** of the super interest is the sum of the amounts worked out in Steps 2 and 3. However the tax-free component will be the unused UPP calculated at Step 2 if the pre-July 83 component amount calculated at Step 3 is 'nil'.

The pre-July 83 component amount calculated at Step 3 is 'nil' if:

- at least one income stream benefit was paid from the income stream before 1 July 1994, or
- the income stream was purchased after 1 July 1994 with the roll-over of a commutation of a pension that commenced before 1 July 1994.

The **taxable component** of the super interest is the value of the super interest less the tax-free component.

The tax-free and taxable components of all future income stream benefits paid following the trigger event will be in the same proportions as they made up the total value of the super interest.

Calculating the components of an existing income stream after a trigger event

This information relates to income streams where:

- there is an account balance attributable to the member (commonly referred to as account-based income streams)
- the benefit began on or after 1 July 1994, and
- the benefit was not purchased with a roll-over.

EXAMPLE

George, aged 67, has been receiving an account-based super income stream from which he was receiving payments prior to 1 July 2007.

The balance of the account from which George's income stream is payable was \$230,000 at 1 July 2007.

George's UPP was \$100,000.

The annual deductible amount applying to George's income stream immediately prior to 1 July 2007 was \$5,000.

Between the commencement of the super income stream and 30 June 2007, George claimed \$18,000 as an annual deductible amount in relation to the super income stream.

The start date of George's eligible service period was 1 July 1970.

As George is above 60 years of age at 1 July 2007, it means that a trigger event had occurred on that date.

<p>Step 1</p> <p>Assume a notional ETP has been made equal to the value of the super interest just before the trigger event.</p> <p>The notional ETP is \$230,000.</p>
<p>Step 2</p> <p>Calculate the unused UPP of the income stream, less any tax-free components of any benefits paid from the income stream after 1 July 2007.</p> <p>For George's income stream the unused UPP is \$82,000 (ie \$100,000 – \$18,000). There are no tax-free components of any income stream benefits paid after 1 July 2007 to reduce this unused UPP amount.</p>
<p>Step 3</p> <p>Calculate the pre-July 1983 component of the notional ETP as provided under section 27AA of the <i>Income Tax Assessment Act 1936</i> (ITAA) as it existed prior to 1 July 2007. In the calculation the last date for George's service period would be 30 June 2007.</p> <p>George's pre-July 1983 component is the lesser of:</p> <p>$\\$230,000 \times (4,748 \text{ days} / 13,514) = \\$80,808$</p>

AND
 $\$230,000 - \$82,000 = \$148,000$

Step 4

The tax-free component of the super interest is the total of the amounts calculated in Step 2 and Step 3:

$\$82,000 + \$80,808 = \$162,808$

The taxable component of the super interest is the amount remaining after subtracting the tax-free component from the super interest:

$\$230,000 - \$162,808 = \$67,192$

Step 5

The tax-free and taxable proportions of the super interest are calculated as follows:

Tax-free proportion = $(162,808 / \$230,000) \times 100 = 70.79\%$

Taxable proportion = 29.21% ($100\% - 70.79\%$)



For PAYG withholding obligations, refer to [Schedule 34 – Tax table for superannuation income streams](#) (NAT 70982).

Calculating the components of non account-based income streams following a trigger event

This information relates to super income streams where:

- there is no account balance or no identifiable lump sum
- the benefit commenced on or after 1 July 1994
- the benefit was not purchased with a roll-over, and
- the benefit is paid from a taxed source.

It applies to non-account based (for example, lifetime or life expectancy) income streams existing at 1 July 2007, that is, where at least one payment was made prior to that date.

Once a trigger event happens, you need to apply the proportioning rule to work out the tax-free and taxable components of all subsequent super benefits paid from the super income stream interest.

Here's how it works where the trigger event is that the member is 60 years of age or over at 1 July 2007:

Step 1

Assume a notional ETP equal to the value of the super income stream interest is made just before the trigger event.

The value of the super interest is determined as the **sum of**:

a) the value of the annual amount of the income stream payable just before the trigger event multiplied by the applicable valuation factor

The valuation factors are set out in Schedule 1B of the Income Tax Assessment Regulations 1997 (ITAR 1997). Table 1 sets out the valuation factors for income streams payable for life and Table 2 sets out the valuation factors for income streams payable for a fixed term.

AND

b) the nominal value of a super lump sum, if any, which is payable at a time in the future (other than a future lump sum resulting from a commutation of the income stream) multiplied by the applicable factor set out in Table 3 of Schedule 1B of the ITAR 1997.

Step 2

Work out the unused UPP of the income stream, less any tax-free components of any benefits paid from the income stream after 1 July 2007.

The unused UPP amount is the amount of the income stream's UPP that has not been excluded from the assessable income of any taxpayer for any income year. The amount excluded from assessable income is generally the annual

deductible amount of the income stream.

Step 3

Work out the pre-July 1983 component of the notional ETP.

The pre-July 83 component amount calculated is 'nil' if:

- at least one income stream benefit was paid from the income stream before 1 July 1994, **or**
- the income stream was purchased after 1 July 1994 with the roll-over of a commuted pension that commenced before 1 July 1994.

In these circumstances, the tax-free component will be the unused UPP calculated at Step 2.

Step 4

The tax-free component is the sum of Step 2 and Step 3.

The taxable component is the value of the super interest less the tax-free component.

Step 5

Once the proportion of the tax-free and taxable components of the income stream have been calculated, all subsequent benefits must be made up of the same proportions of tax-free and taxable components.

The tax-free and taxable proportions of the super interest are calculated as follows:

- Tax-free component (%) = Tax-free component ÷ value of super interest x 100
- Taxable component (%) = 100% – tax-free component (%)

For example, if the tax-free proportion of the super income stream = $100,000 \div 200,000 \times 100 = 50\%$, then the taxable proportion of the super income stream = $100\% - 50\% = 50\%$. The income stream will be paid out according to those proportions from now on.

EXAMPLE

Kathleen, who turned 66 on 11 February 2007, commenced an indexed super income stream, payable for life, from a defined benefit fund on 1 March 2006.

Kathleen's annual income stream amount for the 2006-07 income year is \$26,000.

Kathleen's undeducted purchase price (UPP) was \$100,000.

Between the commencement of the income stream and 30 June 2007 Kathleen has claimed \$6,310 as annual deductible amount in relation to the super income stream.

The start date of Kathleen's eligible service period was 1 July 1970.

As Kathleen is aged 60 or more at 1 July 2007, her income stream is subject to a trigger event as at this date.

Kathleen's income stream is non-reversionary. There is no entitlement to a future lump sum to be payable to Kathleen.

Step 1

Assume a notional ETP equal to the value of the underlying super interest is made just before the trigger event.

The value of Kathleen's super interest is the annual amount of income stream payable just before 1 July 2007 multiplied by the applicable valuation factor obtained from Table 1 of Schedule 1B of the ITAR 1997.

The valuation factor applying to Kathleen's income stream is 14.506. This is based on her age on the last birthday before the trigger event.

The value of the super interest is $\$26,000 \times 14.506 = \$377,156$.

Step 2

Calculate the unused UPP of the income stream, less any tax-free components of any benefits paid from the income stream after 1 July 2007.

For Kathleen's income stream the unused UPP is $\$100,000 - \$6,310 = \$93,690$. There are no tax-free components of any income stream benefits paid after 1 July 2007 to reduce this unused UPP amount.

Step 3

Calculate the pre-July 1983 component of the ETP payment as provided under section 27AA of the ITAA 1936. In the calculation the last date for Kathleen's service period is 30 June 2007.

Kathleen's pre-July 1983 component is the lesser of:

$$\$377,156 \times (4,748 \text{ days} / 13,514) = \$132,510$$

AND

$$\$377,156 - \$93,690 = \$283,466$$

Step 4

The tax-free component is the total of the amounts calculated in step 2 and step 3:

$$\text{Tax-free component} = \$93,690 + \$132,510 = \$226,200$$

The taxable component is the amount remaining after subtracting the tax-free component from the super interest:

$$\text{Taxable component} = \$377,156 - \$226,200 = \$150,956$$

Step 5

The proportion of the tax-free and the taxable components of the income stream interest are calculated as follows:

The tax-free component proportion is:

$$(\$226,200 / \$377,156) \times 100 = 59.98\%$$

The taxable component proportion is:

$$100\% - 59.98\% = 40.02\%$$

Ongoing payment of super income stream benefits

The tax-free and taxable component proportions calculated following a trigger event apply to all income stream benefits paid after the event.

If the income stream is commuted the same proportions will apply to determine the components of the super lump sum benefit.

In some cases, such as when the fund member turns 60, super benefits paid from a taxed fund after a trigger event will not be assessable and not exempt income. That is they'll be tax-free. The recalculation of the tax-free and taxable components will have no effect on the subsequent super benefits paid from the income stream to the recipient.



You must still calculate the proportion of the tax-free and taxable components of a member's super interest as it is relevant in other circumstances such as the death of the member where the death benefit beneficiary is a non-dependant.

Help calculating unused UPP

Super funds will need to determine the amount of unused UPP for members who are converting their existing pension to an income stream under the new rules.

In the event that the super fund is unable to calculate the amount of unused UPP available for a particular member, the fund may advise the member to contact the Tax Office for assistance (for contact details, see [More information](#) below). The Tax Office can determine the amount of unused UPP that should be available to that member, where all the necessary information is provided to make the determination.

Record keeping

You need to keep your taxation records for a period of five years.



For more information on record keeping see [Record keeping essentials](#)

Super terms explained

Account-based super income streams

An account-based benefit refers to an income stream where an account balance is attributable to the member. That is, the amount supporting the income stream must be allocated to a separate account for each member.

Assessable income

Income that a person must include in their income tax return.

Annual deductible amount / Deductible amount

The annual deductible amount is that part of the undeducted purchase price (UPP) used in determining the taxable amount of an income stream received in a particular year. See [Undeducted Purchase Price partial commutation of post-June 1994 pension or annuities](#)

CGT

Capital Gains Tax

CGT exempt component

An employer termination payment will have a CGT exempt component if the payment arose because a taxpayer claimed the small business exemption in relation to a CGT asset of the taxpayer.

Commutation

This is the process of converting an income stream into a lump sum payment. This payment can be paid to the beneficiary or rolled over to another product within the same superannuation fund, or to another superannuation fund.

Concessional component

A concessional component is that part of a superannuation lump sum which represents a bona fide redundancy payment, an approved early retirement scheme payment or an invalidity payment that was made before 1 July 1994.

Contributions segment

The contributions segment forms part of the tax-free component of a super interest.

It generally includes contributions made in respect of a member from 1 July 2007 that have not been included in the assessable income of the superannuation fund. Typically these would be member contributions where no personal tax deduction has been claimed by the member.

Crystallisation

The process that sets or determines the tax-free component of a super interest at 30 June 2007.

Crystallised segment

The crystallised segment forms part of the tax-free component of a super interest. It consists of the total of the following components:

- the concessional component
- the post-June 1994 invalidity component
- the undeducted contributions
- the CGT exempt component
- the pre-July 1983 component

The segment is calculated by assuming that an eligible termination payment representing the full value of the super interest is paid just before 1 July 2007.

Disability superannuation benefit

A disability super benefit means a super benefit if:

- the benefit is paid to a person 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 in a capacity for which he or she is reasonably qualified because of education, experience or training.

Element untaxed in the fund

This is the part the taxable component of a super benefit that has not been taxed in the fund.

Element taxed in the fund

This is the part the taxable component of a super benefit that has been taxed in the fund.

Eligible service period - superannuation fund

Generally, this is the period from the day membership with a fund commenced through to the day membership ceased. Where monies have been rolled over into the current fund from another fund, the commencement date will be the day membership commenced with the earlier fund if this is an earlier date than the current fund membership start date.

Where the fund is an employer sponsored fund the membership commencement date will be the earlier of the day

membership commenced with the fund or the day employment commenced.

Where an employer eligible termination payment has been rolled over into the fund the membership commencement date is the earlier of the day membership commenced with the fund or the day employment commenced.

Eligible termination payment (ETP)

Generally, lump sum payments made prior to 1 July 2007 in consequence of termination of employment, or a lump sum payment made prior to 1 July 2007 from a superannuation fund, approved deposit fund (ADF) or retirement saving account (RSAs) etc, by virtue of being or having been a member of the super fund, ADF or RSA.

Excessive component

The part of an ETP which exceeded the recipient's reasonable benefit limit. (RBLs were abolished as of 1 July 2007.)

Income stream benefit

See [Superannuation income stream](#).

Lump sum

See [Superannuation lump sum](#).

Non-account-based super income streams

This means there is no account balance attributable to the recipient of the income stream and the income stream is funded from general reserves of the fund or, in the case of some unfunded public sector schemes, consolidated revenue.

Non-qualifying component

Very few benefits will have a non-qualifying component. It represents the earnings on any annuities that were purchased with non-superannuation or termination of employment money. These amounts did not qualify for RBL concessional tax rates and were taxed as ordinary income.

Pay as you go (PAYG)

This is a single, integrated system for reporting and paying withholding amounts and tax on business and investment income.

Pension or annuity

A benefit made up of a series of payments

Post-June 1994 Invalidation Component

A Post-June 94 Invalidation component is so much of the eligible termination payment as consists of, or is attributable to, an invalidity payment made on or after 1 July 1994.

Pre-July 1983 component

A benefit may have a pre-July 1983 component if the recipient's eligible service period started before 1 July 1983.

Proportioning rule

The proportioning rule provides that when a super benefit is paid from a super interest, the benefit will include both tax-free and taxable components calculated in the same proportion that these components make up the total value of the super interest.

Example

The amount of a super lump sum benefit is \$1,000. Just before the benefit is paid, the total value of the super interest was \$10,000 (of which \$4,000 was the tax-free component and \$6,000 was the taxable component). This proportion of tax-free and taxable components will apply to the lump sum benefit. Therefore the lump sum benefit will consist of \$400 tax-free component and \$600 taxable component.

Reversionary income stream death benefit

An income stream which on your death continues to be paid to your nominated beneficiary.

Roll-over

A roll-over is:

- the transfer of all or part of an employer termination payment into a superannuation fund (can occur only in very limited situations), or
- a transfer of a member's capital value from one superannuation fund to another or to a new product within the same fund.

Service period

See [Eligible service period](#).

Superannuation benefit

A super benefit is the amount paid either as a superannuation income stream, lump sum or a combination of both and is a payment usually made by a superannuation fund. It includes the following payments:

- a superannuation fund payment to the member

- a retirement savings account (RSA) payment to the holder of the RSA account
- an approved deposit fund payment to the depositor
- a small superannuation account payment to the holder of the account
- an unclaimed money payment to the person because the person was, or because another person who has died was, the member or holder in relation to the money
- a superannuation co-contribution benefit payment
- a superannuation guarantee payment, and
- a superannuation annuity payment paid to the annuitant (including a payment arising from the commutation of the superannuation annuity).

Superannuation income stream

A superannuation income stream is a regular series of payments from a superannuation fund. It has the meaning given by section 307-70 of ITAA 1997.

Superannuation interest

Superannuation interest means:

- an interest in a superannuation fund
- an interest in an approved deposit fund
- an interest in an RSA, or
- an interest in a superannuation annuity.

A super interest is generally any amount, benefit or entitlement which a member holds in a fund.

The total value of a member's super interest at a particular time is the total amount of all superannuation lumps sums, benefits or entitlements that could be payable from the interest at a particular time. Typically this is the member's total account balance in the fund.

In short, a member's super interest is defined as their 'interest in a superannuation fund'. Generally, an account will constitute an interest in the fund.

Super interest below \$200

Where a person's super interest in a superannuation plan is less than \$200 and the entire amount is paid out as a superannuation lump sum, the benefit will be non-assessable non-exempt income if certain conditions are met. See [Super Benefits under \\$200](#).

Superannuation lump sum

Superannuation lump sum is the benefit taken as a lump sum payment from a superannuation plan, rather than as an income stream.

Tax-free component – super interest

The tax-free component of a super interest is the total value of the following segments:

- the contributions segment, and
- the crystallised segment.

Taxable component – super interest

The taxable component of a super interest or benefit is the total value of the interest or benefit less the tax-free component. The taxable component is usually made up of tax deductible contributions made to the superannuation fund by the person and/or by the employer on the person's behalf, as well as earnings on all contributions.

Taxed Source

Refers to superannuation funds, approved deposit funds or retirement savings accounts (RSAs) which pay tax under the standard superannuation tax provisions.

Undeducted contributions

Undeducted contributions are contributions paid by the taxpayer, or by a person other than an employer of the taxpayer, to a superannuation fund where no deduction has been allowed for the contributions. These contributions must have been paid on or after 1 July 1983.

Untaxed Source

An untaxed source is typically a government fund for public servants where the fund does not pay tax on contributions and earnings it receives.

Undeducted purchase price (UPP)

The amount contributed towards the purchase of a pension or annuity that was not eligible for a tax deduction, for example undeducted contributions.

Unused undeducted purchase price (unused UPP)

The unused UPP is the UPP at the time the income stream commenced less the amounts subsequently claimed as deductible amounts against the income stream.

Valuation factor

Factor used for determining the capital value of a super interest upon conversion of an income stream to an equivalent lump sum. It is based on the age of the recipient at commencement of the income stream, the level of reversion and the level of indexation. The income stream valuation factors can be found in the Income Tax Assessment Regulations 1997 Schedule 1B.

Withholding tax

Tax that is deducted at the source: on interest, dividend and royalty payments made to non-residents, and certain investments or payments to residents where the recipient has not provided their tax file number.

More information

PAYG withholding tax table schedules

For information about the amount to withhold from the benefit refer to:

- [Schedule 34 – Tax table for superannuation income streams](#) (NAT 70982), and
- [Schedule 33 – Tax table for superannuation lump sums](#) (NAT 70981).

Calculators

- [Crystallisation calculator](#)
- [Superannuation benefit component calculator](#)

Other related links

- [How your super payout is taxed](#)
- [Changes to super](#)
- [Super professionals home page](#)

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