



Australian Government
Australian Taxation Office

Tax-free component of existing income streams

Provides information for taxed super funds on calculating the tax-free component of income streams that began before 1 July 2007.

This information 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.

Transitional arrangements

From 1 July 2007 a super benefit is made up of a:

- tax-free component, and/or
- taxable component.

For an income stream benefit which began before 1 July 2007, the tax-free component is worked out using the deductible amount that applied to the benefit before the changes to the super law came into affect.

This method is used to calculate the tax-free component until a trigger event occurs.

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



For more information read [Tax-free income streams after a trigger event](#).

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

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

Converting the deductible amount to a tax-free component

Under the transitional arrangements, the tax-free component of each payment of the income stream is determined, rather than the deductible amount for the total payments received in the year.

The annual deductible amount is proportioned across each income stream payment made during an income year. This is the tax-free component of each income stream payment.

The annual deductible amount is the amount that applied immediately prior to 1 July 2007. Generally, this will be the annual deductible amount calculated at the beginning of the super income stream.

Example

Michael is 57 and his income stream from his super fund began before 1 July 2007.

The annual deductible amount for Michael's income stream immediately prior to 1 July 2007 was \$3,000.

Michael's super fund will pay him \$18,000 in 2007-08, in equal monthly payments of \$1,500.

The tax-free component of each income stream payment is calculated as follows:

Step 1

Calculate the proportion of each income stream benefit to the benefits received from the income stream in a year:

$$\$1,500/(\$1,500 \times 12 \text{ months}) = 8.33\%$$

Step 2

Multiply the annual deductible amount by the percentage calculated in Step 1. The tax-free component of each of Michael's monthly income stream benefits is:

$$\$3,000 \times 8.33\% = \$249.90$$

The taxable component of the income stream benefit is \$1250.10 (ie \$1,500 - \$249.90 = \$1,250.10).

Further help to calculate the tax-free component

Funds will need to work out the undeducted purchase price (UPP) for the income stream to calculate the tax-free component.

In some cases, funds may not have all the details required to work out the UPP, such as the member's excess pre-July 1983 contributions.



Funds should advise members to call **13 10 20** if more detail is required by the fund to work out the UPP.



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

PAYG withholding obligations

Age of member	Tax-free component	Taxable component
60 years and over	Funds are not required to withhold any tax from a payment or to issue a payment summary.	
If a member turns 60 during the year	No tax withheld	Withhold tax for the amount paid before the member turned 60.
Preservation age but under 60	No tax withheld	Withhold tax
Below preservation age	No tax withheld	Withhold tax

Notes:

- If a member aged under 60 has not provided their tax file number, withhold tax at the rate of 46.5% from the taxable component.
- Where a fund withholds tax
 - use the appropriate weekly tax table depending on the period for which the income stream covers (ie. weekly, fortnightly or monthly), and
 - adjust the amount withheld to reflect that the member is entitled to 15% of the taxable component as a tax offset.
- The following amounts should be included on the payment summary at the relevant labels
 - tax-free component
 - taxable component (prior to the member turning 60 if applicable)
 - tax offset amount, and
 - tax withheld amount.



For more information about withholding from superannuation income streams, refer to [Tax Table for superannuation income streams \(NAT 70982, PDF, 108KB\)](#).

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