

Taxation of super death benefits

The taxation of your superannuation death benefit is mainly driven by who you nominate to be the beneficiaries, which has been a hotly debated topic in Australian Federal Parliament. Not many people realise the wide discretion their Trustee has, and the fact their super may not end up in the hands they intended them to.

There are a number of ways to have your say about who your benefits go to:

- **Nominating a preferred beneficiary**
If you nominate a preferred beneficiary, it will act as a guide for the trustee of your super fund. However, the trustee is not obliged to pay the benefit to your preferred beneficiary. The trustee makes the final decision as to who your benefit will be paid to.
- **Binding nomination**
A binding nomination instructs the trustee of your super fund who your death benefit is to be paid to. The trustee is bound by your instructions. Not all super funds have binding nominations and some super funds specify conditions that must be met in order for you to make a valid binding nomination. Please note a binding nomination must be renewed every three years to remain valid.
- **If you do not nominate any beneficiaries**
If you do not make any nominations, the trustee of your super fund will consider information provided by your dependants, the legal personal representative of your estate and other relevant parties to determine who your benefits will go to. The trustee is usually inclined to pay the money to your dependants.
- **Reversionary beneficiary (for pensions)**
You may wish to choose for your pension payments to continue being paid to a nominated person; this is called a reversionary beneficiary. In this case, you must nominate a dependant who is under 18, or between 18 and 25 and financially dependant on you. Pension payments can only continue until the beneficiary reaches age 25, at which point the remaining benefits will be paid as a lump sum. Pension payments cannot be made to a non-dependant.

Taxing questions

The amount of tax that a beneficiary will have to pay on your super death benefits depends on the following factors.

- Is the beneficiary is a dependant or non-dependant?
A dependant for a death benefit ETP is:
 - A surviving spouse or de facto spouse
 - An ex-spouse
 - A child under 18 of the deceased
 - Any person who is financially dependent on the deceased at the time of death, or at the time of the payment of the death benefit ETP, or
 - Any person who was in an interdependency relationship with the deceased at the time of death.
- Will the death benefit be paid as a lump sum or a pension?
- How old was the deceased?
- How old is the beneficiary when he/she receives the benefits?
- What are the components of the benefit? Tax-exempt or taxable?
- Is the benefit coming from a taxed or untaxed source?

Any questions? Call 1800 046 166 or visit: www.moneysolutions.com.au

Who do you want your death benefits to go to?

The following table shows how your super death benefits are taxed.

Taxation of benefits paid to a dependant

Age of deceased	Death benefit type	Age of recipient	Taxation	
Any age	Lump sum	Any age	Tax free	
Over age 60	Pension	Any age	Tax Exempt component is tax free	
			Taxable component	<i>Taxed</i> element is tax free - <i>Untaxed</i> element is taxed at marginal tax rate - Recipient is entitled to 10% tax offset
Below age 60	Pension	Over age 60	Tax Exempt component is tax free	
			Taxable component	<i>Taxed</i> element is tax free - <i>Untaxed</i> element is taxed at marginal tax rate - Recipient is entitled to 10% tax offset
		Below age 60	Tax Exempt component is tax free	
			Taxable component	- <i>Taxed</i> element is taxed at marginal tax rate - Recipient is entitled to 15% tax offset - When recipient turns 60, this becomes tax free - <i>Untaxed</i> element is taxed at marginal tax rate - Recipient is entitled to 10% tax offset after age 60

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Taxation of benefits paid to a non-dependant

Age of deceased	Death benefit type	Age of recipient	Taxation	
Any age	Lump sum	Any age	Tax Exempt component is tax free	
			Taxable component	- <i>Taxed</i> element is taxed at 15%
				- <i>Untaxed</i> element is taxed at 30%
Any age	Pension	Any age	This option is no longer available	

- The Tax Exempt component is mostly made up of non-concessional contributions such as personal after-tax contributions, spouse contributions and Government Co-contributions. It also includes any pre-July 1983, invalidity and CGT exempt components that were crystallised at 30 June 2007 when the Simpler Super changes came into place.
- The *untaxed element* is the part of the super that comes from an untaxed source ie. where no contributions tax has been paid. An example of an untaxed source is a public sector super fund.

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