



# Taxation of lump sum benefits

## What do I need to know?

Before you can make sense of the taxation system as it applies to your benefits, there are a number of taxation terms that you should become familiar with. These include your Eligible Service Period (ESP) and your Superannuation Lump Sum Payment.

You will also need to know about your contributions, what a rollover involves, and what rates of tax are payable on lump sums.

## Superannuation contributions

### Amounts you can contribute without paying additional tax

You can make two types of contributions. These are non-concessional and concessional contributions.

## Tax on contributions

### What are my non-concessional contributions?

You can make two types of contributions. These are non-concessional and concessional contributions.

The following contributions are classed as 'non-concessional contributions' for taxation purposes.

## Before you read this factsheet

**Please note:** CSC does not 'tax' your benefits.

We are required to withhold amounts in accordance with Australian Taxation Office (ATO) guidelines. We do not have access to ATO-held information about your super interests with other funds. If you receive a Benefit Estimate from us, any withholding amounts provided will not take your personal financial circumstances into account, including current or previous super income which may lead to additional tax being imposed by the ATO after it is paid. You should seek independent tax advice from an accountant or appropriately qualified tax professional - we cannot provide individual tax advice.



Defence Force  
Retirement & Death  
Benefits Scheme

## 1. Member contributions

As a DFRDB member, you must pay 5.5% of your superannuation salary each fortnight, unless you have reached 40 years of service.

## 2. Additional personal contributions

Although you cannot make additional personal contributions into DFRDB, you are eligible to make additional personal contributions into the Military Superannuation and Benefits Scheme (MilitarySuper) or another eligible superannuation fund. An additional personal contribution is a type of ancillary contribution.

## 3. Co-contributions

Government co-contributions are non-concessional contributions but will not be included in the non-concessional contributions cap.

### Important notes:

Commonwealth Superannuation Corporation (CSC) may not be able to accept your non-concessional contributions if you have not provided your Tax File Number (TFN).

MilitarySuper cannot accept your ancillary contributions if you have not provided your TFN.

### Caps on non-concessional contributions

There is a cap on the amount of non-concessional contributions (after tax) you can make without incurring additional tax.

Your after tax contributions up to the cap can be paid in tax-free.

Non-concessional contributions made above the cap will be taxed at the top marginal tax rate (plus Medicare levy).

If you are making a large contribution into superannuation or approaching your non-concessional contributions cap, you will also need to take into account that it is compulsory for you to continue to make member contributions at the rate of 5.5%.

If you contribute over the cap the Australian Taxation Office (ATO) will advise you of your options.

Further information about contribution caps is available from the ATO website at [ato.gov.au/super](https://ato.gov.au/super)

### What are my concessional contributions?

Salary sacrifice contributions are classed as 'concessional contributions' for taxation purposes.

### Salary sacrifice contributions

If you are a contributing member of DFRDB you can make salary sacrifice contributions into MilitarySuper. They are taxed at 15% when entering the Fund, unless you have made concessional contributions above the cap or you have not provided your TFN. A salary sacrifice contribution is a type of ancillary contribution.

If MilitarySuper does not have your TFN all concessional contributions will be taxed at the top marginal tax rate at the end of each financial year.

### Transfer amounts

Amount transferred into MilitarySuper from other superannuation funds will not count towards the non-concessional or concessional contribution caps.

When you take your benefits from DFRDB or ancillary benefits from MilitarySuper you may receive retirement pay and/or a lump sum.

A lump sum is called a 'superannuation lump sum payment'.

## Caps on concessional contributions

There is a cap on the amount of concessional contributions you can pay into your superannuation without incurring additional tax. The limit across all your superannuation funds can be obtained from ATO on **13 10 20** or visit [ato.gov.au/super](https://ato.gov.au/super)

Concessional contributions above the cap will be taxed at the top marginal tax rate (plus Medicare levy) and will be counted towards your non-concessional contributions cap.

If you contribute over the cap the ATO will advise you of your options.

Further information about contribution caps is available from the ATO website at [ato.gov.au/super](https://ato.gov.au/super)

## Tax on benefits

### Your untaxed and taxed sources

The information below describes the untaxed and taxed sources.

#### 1. Untaxed source

DFRDB is an untaxed superannuation scheme as the funds are drawn from an untaxed source.

An untaxed source is a source from which no tax has previously been deducted. For DFRDB, the untaxed source is the Government's Consolidated Revenue fund.

As a DFRDB member, you are required to make fortnightly contributions (non-concessional contributions) from your after tax salary. These fortnightly contributions are considered to be from an untaxed source because they are paid into Consolidated Revenue, which does not pay income tax. However, because these contributions come from your after tax income, different tax rules apply to this part of your benefit.

The two parts to your benefit in DFRDB are called tax-free and taxable.

- The tax-free component consists of your compulsory fortnightly contributions from your after tax salary.
- The taxable component consists of the untaxed employer contributions which are paid to you from Consolidated Revenue on exit.

Your total benefit in DFRDB including the tax-free component is from an untaxed source.

#### Productivity benefit

Separate to your DFRDB benefit you have been accruing a productivity benefit (from 1 January 1988). This benefit is paid by the Department of Defence and is separate from your DFRDB benefit. It is also from an untaxed source.

#### Associate benefit

An associate's benefit is from an untaxed source.

#### 2. Taxed source

A benefit is from a taxed source if tax has previously been paid on the contributions that created the benefit. Ancillary contributions paid into MilitarySuper are from a taxed source. These include:

- additional personal contributions
- Government co-contributions
- salary sacrifice contributions

and

- transfer amounts.

## Taxation of benefits tables

Table 1 shows the withholding rates for super lump sums

Table 1			
Income component derived by the payee in the income year	Age of person at the date the payment is received	Component subject to PAYG withholding	Rate of withholding (excluding Medicare levy <sup>3</sup> )
Member benefit – taxable component – element taxed in the Fund	Below preservation age	Whole amount	20%
	Preservation age to age 59	Amount up to low rate cap <sup>1</sup>	Nil
		Amount above the low rate cap <sup>1</sup>	15%
	Aged 60 and above	Whole amount	Nil
Member benefit – taxable component – element untaxed in the Fund	Below preservation age	Amount up to untaxed plan cap <sup>2</sup>	30%
		Amount above untaxed plan cap <sup>2</sup>	45%
	Preservation age to age 59	Amount up to low rate cap <sup>1</sup>	15%
		Amount above the low rate cap <sup>1</sup> up to the untaxed plan cap <sup>2</sup>	30%
		Amount above untaxed plan cap <sup>2</sup>	45%
	Aged 60 and above	Amount up to untaxed plan cap <sup>2</sup>	15%
		Amount above untaxed plan cap <sup>2</sup>	45%
Lump sum death benefit paid to non-dependants <sup>4</sup> – taxable component – element taxed in the Fund	Any	Whole amount	15%
Lump sum death benefit paid to non-dependants <sup>4</sup> – taxable component – element untaxed in the Fund	Any	Whole amount	30%
Lump sum death benefit paid to dependants <sup>3</sup> – taxable component – elements taxed and untaxed in the Fund	Any	None	Nil
Rollover super benefits – taxable component – element taxed in the Fund	Any	Whole amount	Nil
Rollover super benefits – taxable component – element taxed in the Fund	Any	Amount up to untaxed plan cap <sup>2</sup>	Nil
Rollover super benefits – taxable component – element taxed in the Fund	Any	Amount above untaxed plan cap <sup>2</sup>	45%
Super lump sum benefit less than \$200	Any	None <sup>5</sup>	Nil
Super lump sum benefit (terminally ill recipient)	Any	None	Nil

1. For the current low rate cap, phone the ATO on **13 10 20** or visit [ato.gov.au/super](https://ato.gov.au/super). The low rate cap in relation to super lump sums paid to an individual who has reached their preservation age is the maximum amount of the taxable component that is given the lowest rate of tax. **The low rate cap is a lifetime limit.** That is, if a payee received an element taxed in the Fund and an element untaxed in the Fund in a lump sum, the total low rate cap allowed for that lump sum cannot exceed the low rate cap that applies. The low rate cap is allocated to the element taxed in the Fund first before allocating the remaining low rate cap to the element untaxed in the Fund.
2. For the low rate cap or the untaxed plan cap in later years, phone the ATO on **13 10 20** or visit [ato.gov.au/super](https://ato.gov.au/super)
3. For the current Medicare levy, phone the ATO on **13 10 20** or visit [ato.gov.au/super](https://ato.gov.au/super)
4. If the lump sum death benefits are being paid to an individual who was a dependant of the deceased, CSC does not withhold amounts from that payment. A dependant includes both child and spouse of the deceased. Child of the deceased includes all of the following:
  - an adopted child, stepchild or ex-nuptial child
  - a child of the deceased's spouse
  - someone who is a child of the deceased within the meaning of the *Family Law Act 1975* (for example, a child who is considered to be a child of a person under a state or territory court order giving effect to a surrogacy agreement).

Spouse of the deceased includes another person (whether the same sex or opposite sex) who:

  - the deceased was in a relationship and that was registered under a law of a prescribed state or territory law
  - who lived with the deceased on a genuine domestic basis in a relationship as a couple.

A dependant includes any person with whom the deceased had an interdependency relationship. An interdependency relationship includes a close personal relationship between two people who live together, where one or both provides for the financial and domestic support and personal care of the other.

A dependant can also be a person who was a dependent of the deceased just before the latter died. Before accepting that a person is financially dependent, phone the ATO on **13 10 20** for more information.

If the super death benefit is to be paid to the trustee of a deceased estate, an amount should not be withheld.
5. As a result of an amendment to the *Income Tax Assessment Act 1997*, an individual is treated as a death benefits dependant of a deceased person if the deceased died in the line of duty as a member of the defence force, a member of the Australian Federal Police or the police force of a state or territory, or a protective service officer (as defined in the *Australian Federal Police Act 1979*).
6. There is no withholding required from the whole amount if it is paid by a regulated super fund, complying approved deposit fund or retirement savings account provider as a super lump sum and it is the payee's entire benefit.

## What is my Superannuation Lump Sum Payment?

Your Superannuation Lump Sum Payment is the lump sum payment of some or all of your benefit. You can elect to roll over your Superannuation Lump Sum Payment, and it will be treated differently for taxation purposes if you do so. Rollovers are discussed later.

From 1 July 2007, your Superannuation Lump Sum Payment will consist of two parts: a tax-free component and taxable component. The taxable component may have taxed and untaxed elements.

We need your correct Eligible Service Period (ESP) to work out these components.

**Note:** Please check on your Member Statement to see if we have your correct ESP recorded.

## What is my eligible service period (ESP)?

Your ESP is the period of service which is used to work out which components of your benefit should be taxed and the rates at which they should be taxed. Generally speaking, your ESP will be the length of your service from the date you joined the Defence Force to the date your benefit is paid. In some cases, if you have other periods of service to your credit before your current service, these periods will be added to your ESP.

## Proportioning of partial benefit payments

Under the tax changes if you access part of your benefit, the payment will include both tax-free and taxable components in the same proportions that exist in your total benefit.

This change has no effect on DFRDB and the current rules for applying your tax-free amount to your benefit (both commutations and retirement pay) remain unchanged.

However, if you are a DFRDB member who has an ancillary benefit with MilitarySuper you may be affected. If you access part of your ancillary benefit, the payment will include both tax-free and taxable components in the same proportions that exist in your total ancillary benefit.

## What is a rollover?

A rollover is an option you have open to you if you receive a Superannuation Lump Sum Payment and you do not want to take any or all of the lump sum straight away. You can then elect to 'roll over' some or all of your money. You can also elect to roll over different proportions of your Superannuation Lump Sum Payment to different Superannuation funds. This is subject to the proportioning rules for ancillary benefits. Whichever way you do it, the action of rolling over your money means that you are voluntarily delaying access to it, and this, in turn, means that it is treated differently for taxation purposes.

You will have to make the rollover election at the same time as you apply for your benefit. Then, after your benefit has been processed, we will send your Rollover Benefits Statement. The payments will be made directly to your rollover fund. When you make a rollover election, we will not deduct any tax from the portion of your Superannuation Lump Sum Payment that you roll over. However, you should note that if another superannuation fund accepts your rolled over amount, it must immediately deduct 15% tax from the untaxed element.

If you do not provide CSC with your TFN your retirement pay will be taxed at the top marginal tax rate (plus Medicare levy).

## Withdrawal of benefits

Contributing members of DFRDB are eligible to make ancillary contributions into MilitarySuper. The tax rules that force a member to claim their benefit at age 65 have been removed with the changes. However, MilitarySuper rules do not permit benefits to remain preserved in the Fund after reaching 65 years of age.

## Other considerations

### Tax File Numbers (TFN)

If MilitarySuper does not have your TFN:

- we will not be able to accept your non-concessional contributions (member and additional personal)
- your employer may choose not to pay productivity contributions

and

- you will be taxed at the top marginal tax rate at the end of the financial year on any concessional contributions (salary sacrifice) that are made.

## Terms to Know

### Ancillary contributions

- Ancillary contributions include:
- additional personal contributions
- Government co-contributions
- salary sacrifice contributions
- spouse contributions

and

- transfer amounts
- Low Income Superannuation Contributions.

### Associate

- A spouse or former spouse of a DFRDB member who gains a separate superannuation interest in the Fund when a Family Law court order or superannuation agreement is put into effect.

## Co-contribution

Additional contributions from the Australian Government are available to eligible individuals who make personal superannuation contributions to save for their retirement. Further information is available at [ato.gov.au/super](https://ato.gov.au/super)

### Low Income Superannuation Contributions

Additional contributions from the Australian Government are available to eligible individuals. Further information is available at [ato.gov.au/super](https://ato.gov.au/super)

### Concessional contributions

Normally contributions that your employer has made on your behalf (for which they can claim a deduction) and include salary sacrifice contributions.

### Non-concessional contributions

Contributions you have made from your after tax income for which you have not claimed a tax deduction. This includes your member contributions and any additional personal contributions. It does not include pre-July 1983 contributions.

### Productivity benefit

Separate to your DFRDB benefit you have been accruing a productivity benefit (from 1 January 1988). This benefit is paid by the Department of Defence and is separate from your DFRDB benefit. It is also from an untaxed source.

### Taxable (untaxed source)

You may have to pay tax on the taxable part when you claim your benefit. The taxable part of your benefit from an untaxed source is also made up of different components. The most common of these components is the post-June 1983 untaxed element.

### Taxed sources

A source where tax has previously been paid, including:

- additional personal contributions
- Government co-contributions
- salary sacrifice contributions
- transfer amounts

and

- any earnings on these contributions.

Your benefit from a taxed source is further divided into two parts: tax-free and taxable.

## Tax-free (untaxed source)

You pay no tax on the tax-free part when you claim your benefit. The tax-free part of your benefit from an untaxed source is made up of several components, including the pre-July 1983 component and non-concessional contributions.

## Untaxed sources

A source where no tax has previously been paid, including:

- compulsory 5.5% member contributions
- untaxed employer contributions paid from Consolidated Revenue
- productivity benefit.

Your benefit from an untaxed source is further divided into two parts: tax-free and taxable.

## How can I get more information?



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