

Simplified Superannuation

Fact Sheet — Death Benefits

How will lump sums death benefits from a taxed source be taxed?

A lump sum death benefit payment will be tax free if paid to a person who is a dependant. A dependant for these purposes is a spouse or former spouse, a child less than 18, a person with whom the deceased had an interdependency relationship just before he or she died, or any other person who was dependant on the deceased just before he or she died. If the lump sum death benefit is paid to a non-dependant, the taxable component will be taxed at 15 per cent.

How will death benefit pensions be taxed?

The taxation of a death benefit paid as a reversionary pension will depend on the age of the primary and reversionary beneficiary. If the primary beneficiary was aged 60 or over at the time of death, then payments to the reversionary beneficiary will be tax exempt. If the primary beneficiary was under age 60 at the time of death, the pension will be taxed at the reversionary beneficiary's marginal rate (less any deductible amount and pension rebate) unless, or until, the reversionary beneficiary is aged 60 or over, in which case the pension becomes tax exempt.

Death benefits will be able to be paid as a pension to a dependant if the member dies before commencing a pension. These pensions will be taxed in the same way as a reversionary pension — see above.

Death benefits will be able to be paid as a pension to a dependant child, although when the child turns 25, the balance in the fund will have to be paid as a lump sum (tax free) unless the child was permanently disabled.

A pension will not be able to revert or be paid to a non-dependant upon the death of a person. These pensions will be paid out to the non-dependant as a lump sum.