

# Simplified Superannuation

## *Fact Sheet — Taxation of Benefits*

### *Key Points*

- Benefits paid from a taxed source either as a lump sum or pension will be tax free when paid to people who are 60 years of age or older.
- Superannuation benefits paid before age 60 will be generally taxed the same way they are now.
- Reasonable Benefit Limits (RBLs) will be abolished.
- The tax exemption for invalidity payments will be extended to the self-employed.

### *How will superannuation payments to a person aged 60 or more be taxed from 1 July 2007?*

- All lump sum benefits paid from a taxed source to a person aged 60 or over will be tax free.
- All pensions paid from a taxed source to a person aged 60 or over will be tax free. The tax free status also applies to pension benefits that are already being paid.
- RBLs will no longer apply.
- People who receive a lump sum superannuation payment or a pension payment from a taxed source will not need to include it in their tax return.

### *What if a person takes their super benefits before they are 60?*

- Lump sums will comprise two components — an exempt component and a taxable component.
  - The exempt component will be paid tax free and comprise: the pre-July 83 component; the CGT exempt component; the post-June 1994 invalidity component; the concessional component and the non-concessional (post-tax) contributions;
  - The taxable component includes: the current post-July 1983 component and the non-qualifying component. It will be paid tax free up to the low-rate threshold (\$140,000 in 2006/07) and amounts above the threshold will be taxed at 15 per cent. The tax rate will be 20 per cent for individuals aged under 55 years.
- Pension payments for people under age 60 will be taxed under the current arrangements, although tax will be lower in some cases.
- The full superannuation pension rebate of 15 per cent will apply to all pensions paid from a taxed source to a person who is aged 55 to 59 years.

- Once the pension recipient turns 60, their pension will be tax free.
- From 1 July 2007, when any part payment of a superannuation benefit is made, the benefit will generally be considered to include both exempt and taxable components with the relevant proportions of each reflecting the proportions such components make up in the total benefit. This will apply to both lump sums and pensions. Existing pensioners will retain the current 'deductible amount' on their pension until they reach age 60 when the benefits become tax free.