

tax on lump sum super payouts

May 2023

We may need to deduct tax, or an estimate of tax, from your super payout from the Mercer Super Trust. We are required to do this by law. Any difference between the tax we deduct and the actual tax you need to pay will generally be worked out as part of your annual tax assessment.

Note: This Fact Sheet does not cover the taxation of super withdrawals made under the First Home Super Saver Scheme (FHSSS). Tax on FHSSS withdrawals is determined and deducted by the Australian Taxation Office (ATO).

Refer to the *Contributions* Fact Sheet from mercersuper.com.au/pds for an outline of the FHSSS or go to ato.gov.au.

This Fact Sheet also does not cover the taxation of pension payments from your super. For more information, refer to the Product Disclosure Statement for your pension from mercersuper.com.au/pds or by calling the Helpline.

WHO IS AFFECTED

We will generally deduct tax from your super payout if you are under age 60 (except terminal illness payouts) or if we pay a taxable component of your super to your non-Tax Dependant in the event of you passing away. Once you have reached age 60, super payouts we make to you will be tax-free.

THE AMOUNT OF TAX YOU'LL PAY

This may depend on:

- your age when we process your payout
- the type of payout
- whether we have your Tax File Number (TFN)
- the components that make up your payout, and
- various other factors.

LUMP SUM PAYOUTS BEFORE AGE 60

Your super payout will be made up of a tax-free component (if you have one) and a taxable component.

Your tax-free component

This will generally be made up of any:

- personal, after-tax contributions on which you have not obtained a deduction
- spouse contributions, and
- an amount calculated at 1 July 2007 that represents your benefit before 1 July 1983.

A higher tax-free amount may apply if you are totally and permanently disabled.

If you receive a lump sum terminal illness payout, your whole payout will generally be tax free.

Your taxable component

This is your super payout minus your tax-free component. Tax on this component is generally as follows:

- If you take your payout after you reach your preservation age but before age 60, you'll pay no tax on the first \$230,000 in the 2022/2023 financial year or \$235,000 in the 2023/2024 financial year (called the low rate cap and explained in more detail below) and 17% tax (including 2% Medicare levy) on any amount over \$230,000 or \$235,000 (as applicable), or
- If you take your super payout before you reach your preservation age (where you are allowed to), you'll pay tax at 22% (including 2% Medicare levy) on the total taxable component of the payout.

You may also need to pay the Medicare levy surcharge when you submit your tax return.

You may be taxed at a higher rate if you haven't given us your TFN.

The low rate cap is \$230,000 for the 2022/2023 financial year. From 1 July 2023, the low rate cap will increase to \$235,000. The amount is indexed each year in line with the Average Weekly Ordinary Time Earnings (AWOTE) in increments of \$5,000. This is a lifetime limit that applies to all super payouts paid to you after you reach your preservation age.

Temporary resident payouts

Generally, higher tax rates apply to your super payout if you are a temporary resident and we can only pay your super to you after you leave Australia.

For more information on eligibility, refer to the ATO website ato.gov.au.

DEATH PAYOUTS (ALL AGES)

Lump sum payouts to your Tax Dependants

Payouts to your beneficiaries who are dependants under tax law (Tax Dependants) will be tax free. This will include payouts to your Tax Dependants from super paid to your estate. Both the payouts to your estate and then to your Tax Dependants will be tax free.

Your Tax Dependants can be:

- your spouse or former spouse (including your de facto or same sex spouse)
- your child aged under 18, or
- a person you had an interdependency relationship with just before you passed away, or anyone who was dependent on you just before you passed away.

Lump sum payouts to your non-Tax Dependants

The taxable component of payouts we make to your beneficiaries who are not Tax Dependants will be taxed at special rates, ranging from 15% to 30% plus the 2% Medicare levy. Tax will not be deducted from any tax free component.

We do not deduct tax from super paid to your estate. The trustee of your estate will be responsible for deducting tax. The tax outcomes for beneficiaries who are not Tax Dependants may be different than if we made the payout directly to them.

NEED HELP?

You should get advice from a licensed, or appropriately authorised, financial adviser if you are unsure of what tax you may have to pay on your super payout.

IF YOU NEED MORE INFORMATION

You can read more about tax on benefits at ato.gov.au.

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