Monthly Information Newsletter – Tax & Super

August 2023

Super withdrawal options

For individuals who have retired and met a condition of release, or who have turned 65 and are still working, you can receive your superannuation as a super income stream, as a lump sum, or a combination of both. This third option is quite popular for those who have yet to pay out their house, for example – a lump sum is withdrawn to pay off the remainder of the mortgage, and the balance used to commence a super income stream.

1. Lump sum

If your super fund allows it, you may be able to withdraw some or all of your super in a single payment. This payment is called a lump sum.

You may be able to withdraw your super in several lump sums. However, if you ask your provider to make regular payments from your super it may be classed as an income stream.

The downside to lump sums from a tax perspective is that once you take a lump sum out of your super, it is no longer considered to be super, and thus no longer enjoys the superannuation tax concessions (15% on earnings and capital gains, and tax-free if you convert your super into an income stream). That is, if you invest the lump sum outside of super, earnings on those investments are not taxed as super and may need to be declared in your tax return.

Further, if you're over age 60, super money you access from super will generally be tax free, but if you're under 60, you might have to pay tax on your lump sum.

2. Super income stream

You receive a super income stream as a series of regular payments from your super provider (paid at least annually). The payments must be made over an identifiable period of time and meet the minimum annual payments for super income streams. To find out what will happen if the income stream doesn't meet the minimum annual payment, see Minimum annual payment not made.

The payments don't need to be at the same interval, and the amount paid may also vary.

Super income streams are a popular investment choice for retirees because they help you manage your income and spending. Super income streams are sometimes called pensions or annuities.

One of the most common income streams is an account-based income stream. This is an account made up of money you've accumulated in super, which allows you to draw a regular income once you retire. An account-based income stream includes market-linked pensions that started on or after 1 July 2017.

Your provider or SMSF normally continues to invest the money in your super account and adds returns from investments to your account. Your account balance fluctuates with market performance.

Each year you can withdraw as much as you like through your account-based super income stream (unless you're receiving a transition to retirement income stream).

You must withdraw a minimum amount each year – based on your age and account balance. There may be income tax implications if your provider does not pay you the minimum amount each year.

You can continue to receive your super income stream until there is no money in your account. How long your super income stream lasts depends on how much you take out each year and what investment returns you receive. There is a limit on the amount you can transfer into retirement phase; this is known as the transfer balance cap.

The chief advantage of this type of withdrawal is that earnings on the remainder of your account inside of superannuation are taxed concessionally.

Take-home message

Check with your super provider and adviser to find out what options are available to you, and which are best for your circumstances.

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