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Superannuation: Anti-detriment payments

Issued on 1 November 2013.

Summary

The taxable component of a lump sum death benefit payable to the spouse or child of a deceased person from a superannuation fund may be increased by up to 17.647% to reflect the payment of contributions tax. This increased payment is often referred to as an 'anti-detriment payment' and can be claimed by the fund as a tax deduction.

An anti-detriment calculator is available on the OnePath Adviser Advantage website.

What is the anti-detriment payment?

When superannuation funds were required to pay tax on contributions from 1 July 1988 it was decided that death benefits should not be disadvantaged. As contributions tax effectively reduces the balance of members, funds were permitted to increase the death benefit to an equivalent assuming the fund was not required to pay tax. In addition, the fund can claim a tax deduction for the amount of the anti-detriment payment.

Tip

Request a superannuation fund to pay an anti-detriment payment on a lump sum superannuation death benefit where it is made to the spouse or child of the deceased (or through the estate to these people).

Note: It is not compulsory for a superannuation fund to pay an anti-detriment payment.

Who qualifies for an anti-detriment payment?

Anti-detriment payments may be made on lump sum superannuation death benefits paid from either an accumulation interest or pension interest, to the deceased member's:

- spouse (including a de facto of the same or opposite sex)
- former spouse
- child (including adult child and child of the deceased member's spouse).

If a super death benefit is paid to the deceased member's estate, the payment can include an anti-detriment payment to the extent that the deceased member's spouse, former spouse or child is expected to benefit from the super death benefit paid via the estate.

Anti-detriment payments are only payable on a lump sum superannuation death benefit. It is not payable upon commencement of a death benefit income stream.

Accumulation phase at time of death

Where a member in the accumulation phase dies, the trust deed of the superannuation fund may permit the accumulated superannuation benefits to be paid as either a lump sum death benefit or a death benefit pension or a combination.

Benefits paid as a lump sum death benefit

A lump sum payment from an accumulation interest upon the death of a member will always qualify as a lump sum superannuation death benefit and may include an anti-detriment payment if it is paid to the spouse or child of the deceased.

Benefits paid as a death benefit pension

Where a death benefit pension is paid, any subsequent lump sum payments from the pension (within the death benefit period) that qualify as lump sum superannuation death benefits, may qualify for an anti-detriment payment.

For more information on whether a payment qualifies as a lump sum superannuation death benefit, please refer to Technical Bulletin 37 – Superannuation death benefits.

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Pension phase at time of death

Where the deceased member was in pension phase at the time of death, an anti-detriment payment may be payable where:

- the income stream is paid as a lump sum death benefit; or
- the income stream continues to be paid to a beneficiary and a lump sum death benefit is subsequently paid within the death benefit period.

Lump sum benefits paid from death benefit pensions must be paid to a spouse or child of the deceased to be eligible for an anti-detriment payment.

How are anti-detriment payments calculated?

Accumulation funds

The following methods are generally accepted by the ATO to calculate anti-detriment payments:

- an amount calculated in accordance with an approved formula (in practice, most funds use the formula method); OR
- an amount certified by the fund's auditor as being the amount of benefit reduction due to tax on taxable contributions.

The most recent formula approved by the ATO for anti-detriment payments is in ATO ID 2010/5. This formula is as follows:

$$\frac{(0.15 \times P)}{(R - 0.15 \times P)} \times C$$

Where:

R is the service period occurring after 30 June 1983

P is number of days in R occurring after 30 June 1988

C is generally the taxable component of the superannuation interest, excluding any insured amount.

This formula generates a maximum anti-detriment payment of up to 17.647% of the taxable component.

An anti-detriment calculator using this formula is available on the OnePath Adviser Advantage website. OnePath uses this formula to calculate anti-detriment payments.

Generally, insurance only based superannuation products will not qualify for an anti-detriment payment.

Example

A member's accumulated superannuation interest consists of:

Superannuation benefit	$100,000 (all taxable)
Service period start date	01/01/1990

The member dies on 1 October 2012. The proceeds from the deceased member's account balance are paid as a lump sum death benefit. There was no insurance held by the superannuation fund.

The following tables compare the lump sum death benefit being paid to:

- the spouse of the deceased directly from the superannuation fund;
- non-tax dependant adult child of the deceased directly from the superannuation fund; and
- non-tax dependant adult child of the deceased via the estate.

Death benefit paid directly to the spouse	
Superannuation benefit	$100,000
Anti-detriment payment	$17,647
Total payment	$117,647
Tax	Nil
Net super death benefit	**$117,647**

Death benefit paid directly to an adult child	
Superannuation benefit	$100,000
Anti-detriment payment	$17,647
Total payment	$117,647
Tax withheld by the super fund (16.5%)	$19,411
Net super death benefit	**$98,236**

Death benefit paid to an adult child via the estate	
Superannuation benefit	$100,000
Anti-detriment payment	$17,647
Total payment to the estate	$117,647
Tax withheld by the estate (15%)	$17,647
Net super death benefit	**$100,000**

Note: Medicare levy is not payable where the death benefit is paid via the estate.

Defined benefit funds

The anti-detriment payment from a defined benefit fund is determined by an actuary and represents the amount of benefit reduction due to tax payable on taxable contributions.

Taxation of the anti-detriment payment

The anti-detriment payment forms part of the lump sum death benefit and is taxed accordingly.

Paid to a tax dependant

A lump sum death benefit (including the anti-detriment payment) is paid tax free to a tax dependant.

Paid to a non-tax dependant

We suggest that you contact the relevant superannuation provider to determine how the anti-detriment payment is allocated across the tax free and taxable component of the lump sum death benefit.

Some superannuation providers may simply add the anti-detriment payment to the taxable component of the lump sum death benefit. See Example 1.

Alternatively, some super funds apportion the anti-detriment payment according to the tax free/taxable ratio that applied to the superannuation interest immediately before the anti-detriment payment is added to the lump sum death benefit. See Example 2.

Example 1

A member's superannuation interest consists of:

Tax free	$100,000
Taxable (taxed)	$100,000

The member has died and a lump sum death benefit of $217,647 will be paid (including an anti-detriment payment of $17,647). The lump sum death benefit consists of:

Tax free	$100,000
Taxable (taxed)	$117,647

Example 2

Using the example above, the tax free/taxable ratio of the superannuation interest immediately before the anti-detriment payment is added to the lump sum death benefit is 50/50. Hence, the lump sum death benefit consists of:

Tax free	$108,823.50
Taxable (taxed)	$108,823.50

OnePath apportions the anti-detriment payment according to the tax free/taxable ratio that applied to the superannuation interest immediately before the anti-detriment payment is added to the lump sum death benefit.

The tax free component of a lump sum death benefit paid to a non-tax dependant is tax free.

The taxable component paid to a non-tax dependant is taxed in accordance with the following table:

Taxable component	Taxation*
Element taxed	15%
Element untaxed	30%

*Maximum tax rates. Medicare Levy and Medicare Levy Surcharge may also apply where paid directly to the non-dependant.

Definition of tax dependant

A tax dependant (death benefits dependant) is:

- the deceased person's spouse or former spouse (includes another person, of opposite or same sex, who lives with the member on a genuine domestic basis as a couple and another person with whom the member is in a relationship that is registered under the prescribed State or Territory law)
- the deceased person's (or their spouse's) child, aged less than 18. Child includes an adopted child, stepchild* or an ex-nuptial child (of the member or their spouse).
- any other person with whom the deceased person had an interdependency relationship just before he or she died
- any other person who was financially dependent upon the deceased person just before he or she died.

* A step-child ceases to be a 'child' of a step-parent, if the natural parent dies or divorces the step-parent. In this case, to be a dependant, the individual would need to be a financial dependant or in an interdependency relationship with the member or an adopted child of the member.

How are anti-detriment payments funded?

To fund the anti-detriment payment, the superannuation fund claims a tax deduction. The tax deduction available to the superannuation fund is determined by:

$$\frac{\text{Anti-detriment payment}}{0.15}$$

The tax savings from this tax deduction reflects the amount paid as the anti-detriment payment.

Self-managed superannuation funds

Self-managed superannuation funds (SMSF) can also make anti-detriment payments. However, the process can be more complicated. The main problem is that the increased payment must be made before the tax deduction can be claimed. Therefore the fund needs to pay a benefit that is greater than the member's account balance. As such, it is generally only possible to fund the anti-detriment payment from reserves maintained by the fund or directly from income before it is transferred to members.

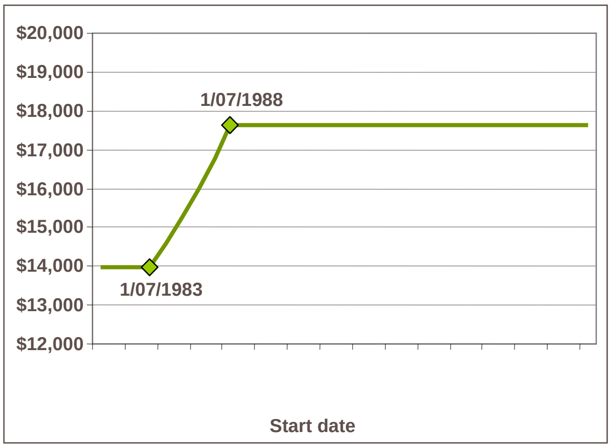
In most cases, where the anti-detriment payment is funded from the reserves of the SMSF, the payment counts against concessional contributions cap of the deceased. An exception may apply where the anti-detriment payment is less than 5% of the deceased member's interest in the fund at the time of the allocation from the reserve. This may have limited application where the death benefit has been paid prior to the anti-detriment payment.

Impact of the start date on anti-detriment payment

Using the ATO ID 2010/5 formula, the start date generally impacts the amount of the anti-detriment payment as follows:

- start date is before 1 July 1983 – the minimum payment is made
- start date is from 1 July 1988 – the maximum payment is made
- start date is between 1 July 1983 and 30 June 1988 – the payment increases between the minimum and maximum.

The following table illustrates the anti-detriment payment across various start dates where the member dies on 31/12/2012 and a taxable component of $100,000 is paid as a lump sum death benefit:



The start dates are as at 1 July of each financial year.

Before consolidating superannuation funds with different start dates, consider the impact on any potential anti-detriment payment.

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OnePath products which offer anti-detriment payments include:

Accumulation products

- ANZ OneAnswer Personal Super
- ANZ Super Advantage (ASA)
- ANZ SmartChoice
- Corporate Super
- Integra Super
- OneAnswer Frontier Personal Super
- OneAnswer Personal Super
- OptiMix Superannuation
- PortfolioOne Superannuation.

Pension products

- ANZ OneAnswer Pension (including TAP)
- ANZ SmartChoice
- OneAnswer Frontier Pension
- One Answer Pension (including TAP)
- OptiMix Pension
- OptiMix Term Allocated Pension
- PortfolioOne Pension.