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Super Tip #24: Anti-Detriment Payments

When it comes to the extra product offerings available through superannuation, few are aware of increased super lump-sum death benefits.

They are otherwise known as anti-detriment payments. As such, they don't realise that in the unfortunate case of death, it provides a great opportunity to boost the benefit that will be paid to your dependants. So what exactly is this form of payment and how can you ensure eligibility?

An anti-detriment payment is simply an additional amount included in a lump-sum death benefit paid to dependants, directly or through an estate. The payment is designed to restore the deceased's death benefit to what it would have been if contributions tax, which stands at 15 per cent, had not been paid on the taxable contributions.

When contributions tax was introduced on July 1, 1988, the government asserted that no one would be worse off from the introduction of this tax. In effect, the anti-detriment payment delivers on this promise. The added advantage of paying this increased benefit is that the super fund is able to claim a tax deduction for the increased amount.

Scope to pay this benefit and to claim the associated tax deduction is available only when…

1. The death benefit is paid in the form of a lump sum.

2. The benefit is paid directly to a spouse, former spouse or child (including an adult child) or indirectly to these dependants through the deceased member's estate.

3. The death benefit is increased by an amount, called the 'tax savings amount'.

Essentially there are two methods that can be used to calculate the tax saving amount, the audit method or formula method. As the formula method has been approved for use by the Australian Taxation Office in interpretative decisions and is the one most often used, it has been used to determine the tax saving amount in the example below:

Bob died on December 14, 2008, and left behind a superannuation balance of $800,000. The components of his superannuation fund are $600,000 taxable and $200,000 tax-free. If we use the formula method, the tax saving amount comes to a total of about $82,220, which is the amount that would be paid to Bob's dependants by the trustee.

As the above example shows, the payment can be substantial and can provide much needed additional funds to the deceased's beneficiaries.

Its worthwhile checking with your super fund to ensure it is able to pay an increased lump-sum death benefit. Specialist advice is required to make this payment from a self-managed superannuation fund, but the benefit the tax deduction can bring to the remaining fund members can be significant.

To ensure you are able to maximise the available benefits to your beneficiaries, you should consult Westmount Securities.

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