

## SMSF members should consider lump sums

### Small window of opportunity

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**Electing to take income as a lump sum can have benefits for some SMSF members.**

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SMSF members between the ages of 55 and 60 should not ignore the merits of taking lump sum payments as an income stream, according to Heffron principal Meg Heffron.

The majority of SMSF members in this age bracket do not consider making lump sum payment arrangements and choose to take income from a pension in order to ensure the fund receives the tax exemption on its income.

However, drawing income as a lump sum can have tax benefits for the individual.

"For people in that group, particularly high net worth clients, if they had to take a dollar out and they were tossing up whether to have that dollar taxed as a pension or a lump sum, often they would actually prefer that it could be taxed as a lump sum," Heffron said.

"A large part of these people's super will be taxable and if it comes out as a lump sum they get the first \$150,000 completely tax free. Even over and above that it's only a 16.5 per cent tax rate, which compared to the situation of pensions for a high net worth client they could end up paying quite a bit more tax on," she said.

According to Heffron, the ideal strategy for these SMSF members would be to start a pension and have the payments from the fund taxed as a lump sum.

This strategy is actually available for this group to use due to a mismatch in the *Income Tax Assessment Act* (ITAA) and the *Superannuation Industry Supervision Act* (SIS), she said.

A pension can be started using the minimum amount having to be drawn down, satisfying the SIS requirements, with a nomination being made to have the payments taxed as a lump sum in line with the ITAA, Heffron said.

In order to make the strategy work, individuals have to have some unrestricted non-preserved money in their fund, the tax treatment election has to be made before the payment is taken, and the pension has to remain in place.

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