Superannuation Re-contribution Fundamentals

Re-contribution strategy involves an eligible person withdrawing the superannuation benefits, paying any tax as required and then re-contributing the funds back into superannuation. The strategy aims to convert the taxable portion of superannuation benefits into tax free components. This results in the tax payable being minimised when the superannuation benefits are withdrawn and passed onto beneficiaries.

Prior to the introduction of Simple Super legislation on 1 July 2007, re-contribution strategy was used prior to commencing superannuation sourced income streams in order to minimise income tax in retirement. The need for re-contribution strategy for this use became minimal post 1 July 2007 as the new legislation allows tax free pension income for those aged 60 and over.

Re-contribution is still beneficial for those aged between preservation age and age 60 from income tax perspective. This strategy can also be utilised where there is a likelihood that your superannuation benefits will be inherited by non tax dependants such as your adult children. Re-contribution can potentially minimise the lump sum tax payable on the death benefit proceeds or in some cases, the adult beneficiaries will not be required to pay any tax at all. Therefore, re-contribution is an effective strategy from estate planning perspective.

Superannuation benefits are categorised into tax free and taxable (made up of taxed and untaxed elements) components depending on how the original contributions were made into the fund. There is no tax payable when you withdraw tax free components. Under the current superannuation environment, lump sum withdrawals from superannuation must be made in accordance with the proportioning rules (ie equal portions draw from taxable and tax free).

The strategy involves withdrawing lump sum (normally to the low tax threshold) and re-contributing into superannuation as non-concessional contribution, a majority of your new superannuation balance will potentially consist of tax free components. When the benefits are received by your non-tax dependant beneficiaries, there will be little or no tax payable by them. Refer to Table 1 for the tax rates applicable when the superannuation death benefits are paid as a lump sum.

This strategy can only be employed if you meet a condition of release to access your superannuation benefits and also be eligible to contribute into superannuation. If you are below age 60, you are able to receive only the first $145,000 (Low Cap Rate for 08/09 tax year) of the taxable component at a concessionally taxed rate.

Re-contribution is more beneficial if you are aged 60 and over as you are able to withdraw your superannuation benefits tax free. You can contribute the funds as non-concessional contribution $150,000 per annum or up to $450,000 average over three year period if you are under age 65. If you are aged 65 to 74 on 1 July of the financial year, non-concessional contribution cap is limited to $150,000 per annum only.

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Table 1: Death Benefit paid as a lump sum

Recipient	Superannuation Component	Tax Treatment
Tax Dependant	Tax Free	Tax Free
	Taxable (taxed and untaxed element)	Tax Free
Non tax dependant	Tax Free	Tax Free
	Taxable-taxed element	16.5%*
	Taxable-untaxed element	31.5*

***** includes Medicare levy

Advantages and Disadvantages of Re-contribution Strategy

The advantages of re-contribution include:

- Tax payable upon the receipt of superannuation death benefits by non tax dependants is reduced.
- If you are aged between preservation age to 60, by turning taxable superannuation into tax free component, you will pay less tax on the pension income received.
- There is no tax payable for superannuation withdrawals if you are aged 60 and over.

The disadvantages of re-contribution include:

- Re-contribution can only be implemented if you have met a condition of release to access your superannuation and be eligible to make contributions to superannuation.
- Transaction costs such as buy/sell spread may apply while transferring the funds.
- Your taxable income may increase for a particular financial year by employing this strategy. You should be aware of any repayment thresholds for funding arrangements you may have in place.
- You will be liable to pay tax for the withdrawal from superannuation if you are aged below 60 and depending on the components of your superannuation.
- Non-concessional contribution cap applies depending on the age. Any excess contribution can attract penalties.
- Any potential anti-detriment payments (refund of contributions tax paid during the accumulation phase) entitled to by the beneficiaries may be reduced or even lost. The amount can be an additional uplift of up to 16.75%.
- The beneficiaries may be liable to pay tax when lump sum death benefit is received.

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