

What is a re-contribution strategy?

A re-contribution strategy is just that; a withdrawal of your superannuation benefits and a re-contribution back into super.



Why implement a re-contribution strategy?

A great reason to implement a re-contribution strategy is tax; this strategy converts the taxable portion of your superannuation benefits into tax-free components. Ultimately, resulting in a reduction of the potential tax payable when your super is passed onto your beneficiaries following your death.

This strategy can only be implemented if you are able to meet a condition of release to access your superannuation benefits and also be eligible to make a contribution back into superannuation.

Before the introduction of 'Better Super' legislation on 1 July 2007, the re-contribution strategy was used before commencing a superannuation sourced income stream, in order to minimise income tax in retirement. The need for a re-contribution strategy for this purpose became nearly obsolete from 1 July 2007 as the new legislation allows tax-free income from superannuation-based pensions for those aged 60 and over.

However, since 1 July 2007, the strategy is still effective from the following perspectives:

Income tax perspective: A re-contribution is still beneficial for those aged between preservation age (generally 55) and age 60 expecting to receive a superannuation income stream.

- If you are under the age of 60 you will not pay tax on the tax free portion of your superannuation income, but the taxable component will be taxed at marginal rates; and
- If you are aged between 55 and 59, or receiving the superannuation income (pension) as a result of permanent incapacity, you will be entitled to a tax offset equal to 15% of the taxable amount of the payment.

Estate planning perspective: This strategy can also be utilised where there is some likelihood that your superannuation benefits will be inherited by those not considered to be 'dependants' under taxation law, such as adult children. A re-contribution can reduce the lump sum tax payable from death benefit proceeds, or in some cases, the adult beneficiaries will not be required to pay any tax at all (see table of tax rates on page 2).

Superannuation benefits are categorised into tax-free and taxable components depending on how the original contributions were made into the fund. In the current superannuation environment, lump sum withdrawals from superannuation must be made in accordance with the proportioning rules, that is, proportionate amounts drawn from taxable and tax-free components. There is no tax payable on tax-free components.

The re-contribution strategy involves withdrawing a lump sum, paying any necessary tax on the withdrawal and re-contributing these funds into superannuation as a non-concessional contribution. Generally you will not have to pay tax on lump sum withdrawals you make from super if you are aged 60 or over. The revised superannuation balance will potentially consist of all, or more, tax-free components. When you die and the benefits are received by your non-tax dependant beneficiaries, there will be little or no tax payable by them.

The following table illustrates the tax rates applicable when superannuation death benefits are paid as a lump sum.

Recipient	Superannuation component	Tax treatment
1. Tax dependant (eg a spouse, children under 18, someone financially dependent on the deceased person)	Tax-free	No tax payable
	Taxable (taxed and untaxed elements)	No tax payable
2. Non-tax dependant (eg children 18 and over)	Tax-free	No tax payable
	Taxable (taxed element)	16.5%*
	Taxable (untaxed element)	31.5%*

* includes Medicare levy of 1.5%.

Case study

John, 57, has \$400,000 in his super fund with \$200,000 tax-free and \$200,000 taxable component. Assuming he is eligible to withdraw his superannuation balance, he could proportionally withdraw \$330,000 from his superannuation as follows:

Tax components	Tax implications
\$165,000 tax-free component (50%)	Tax-free
\$165,000 taxable component (50%)	Tax-free up to \$165,000 of taxable component (low-rate cap for 2011/12)
\$330,000 total super	Nil tax payable

Assuming he is eligible to re-contribute the full \$330,000 into super, his revised superannuation balance will consist of 91% tax-free component, rather than the original 50%, as follows:

	Tax-free component	Taxable component
Initial superannuation balance	\$200,000	\$200,000
Withdrawal	\$165,000	\$165,000
Balance in fund	\$35,000	\$35,000
Add re-contributed amount	\$330,000	\$0
Balance after re-contribution	\$365,000	\$35,000

Re-contribution may be more beneficial if you are aged between 60 and 65 as you are able to withdraw your superannuation benefits tax-free (regardless of the tax components). You can then make a non-concessional contribution up to \$150,000 per annum (2011/12) or up to \$450,000 average over a three year period whilst you are under age 65.

A great reason to implement a re-contribution strategy is tax.

There are some disadvantages of a re-contribution strategy

- Transaction costs such as buy/sell spreads may apply while transferring the funds.
- By implementing this strategy, your assessable and taxable income may increase for a particular financial year. A higher assessable income and taxable income may lead you to pay more tax due to loss of tax offsets, Medicare levy surcharge or reduce some Family Assistance from Centrelink.
- You may be liable to pay tax for the withdrawal from superannuation if you are aged below 60 and depending on the components of your superannuation.
- When re-contributing, any amount that is in excess of a specified limit, the non-concessional cap, will incur penalty tax at 46.5%.
- Any potential anti-detriment payments (refund of contributions tax paid during the accumulation phase) that a surviving beneficiary may be entitled to may be reduced or even lost as the value of these payments are proportional to the amount of taxable component present in the member's account at death.

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