AVOID THE SUPERANNUATION DEATH TAX

There is an adage that if something is worth saying, it's worth repeating. With that principle in mind, it is worth reiterating an issue that is still not widely understood and continues to provide a shock to those inheriting funds from superannuation.

Even though Australia has not had any death duties for decades, they still exist, albeit under another name – superannuation death benefit taxes.

As superannuation assets and individual balances continue to grow, more and more Australian families will receive a rude shock after the death of a family member in the form of up to a 17% tax bill on a portion of the deceased superannuation benefits. In some cases, the tax could even reach as high as 32%.

That is up to $160,000 on a superannuation balance of $500,000!

The superannuation death tax is a direct tax payable on the taxable component of the superannuation balance. It is a tax usually inflicted on non-dependents, usually adult children, as defined by the Income Tax Assessment Act. Dependent beneficiaries such as a spouse would receive any superannuation balance tax-free.

For example, if the deceased person's superannuation balance contains a taxable component, it could be passed on to any non-dependent beneficiaries. As a result, they will be liable to pay a tax of at least 15% – this is the superannuation death benefit tax. On the other hand, the tax-free component, as the name suggests, is paid tax-free to any non-dependent beneficiaries.

Although the entire member balance may not fall under the taxable category, a significant portion likely does. This is because the taxable component primarily consists of concessional contributions, including contributions from employment.

Re-contribution strategy

One effective way to reduce this tax is through a re-contribution strategy. This approach involves withdrawing money from superannuation and depositing it back as an after-tax, non-concessional contribution.

Implementing a re-contribution strategy allows the member to gradually convert their balance from a taxable state to a tax-free one.

Recent superannuation changes mean this strategy is generally available for members between the ages of 59 and 75. For example, a retired individual aged 60 could withdraw a lump sum of $330,000 tax-free and re-contribute the amount back into the fund immediately. This strategy will reduce the taxable component while increasing the tax-free portion.

Other ways to avoid this tax

Aside from not dying and setting up an appropriate beneficiary nomination, another way to avoid this tax is to have nothing in superannuation at the time of death.

While the timing of a withdrawal before death for this purpose is challenging, the strategy behind it is relatively simple to understand. After age 65, or possibly before, a member can usually withdraw their superannuation tax-free and continue investing in their own name. The benefit is that when the individual passes away, the balance will no longer reside in the superannuation account, leading to a tax-free transfer regardless of the beneficiary's dependency status. While the drawback is that the funds will no longer be in the tax-effective superannuation system, the benefit of the tax-free threshold and the various tax offsets available to a senior may result in a similar tax structure.

Appropriate beneficiary nomination

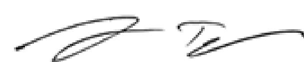
When a member passes away, superannuation assets do not automatically become a part of their estate. Therefore, it is vital to have an appropriate binding death benefit nomination. This ensures that the deceased member's wishes are honoured, and it can also help strategically reduce or eliminate the death benefit tax by nominating dependents.

What can you do?

Seek advice now! The potential tax liability could be significant, and strategies to reduce this amount are considerably complex. It depends on several factors, including the member's age and eligibility to contribute. Additionally, it can take a number of years to implement these strategies. Getting advice from a professional superannuation adviser is crucial, as an error can have significant ramifications.

Get in touch

We encourage you to contact your Bell Potter adviser, who can connect you with a member of Bell Potter's Technical Financial Advice team for further discussion.



Jeremy Tyzack

Head of Technical Financial Advice
Bell Potter Securities

Bell Potter's technical financial advice team can put together a strategy designed to help you achieve your retirement objectives.

Working with you and your Bell Potter Adviser, we can help with most financial aspects of retirement, including:

- Identifying your financial goals
- Structuring your existing assets appropriately
- Identifying your approach to investment and your appetite for risk, and
- Reviewing your current superannuation arrangements.

To create a tailored investment plan based on your needs and objectives call your adviser or 1300 0 BELLS (1300 0 23357).

IMPORTANT INFORMATION: This information was prepared by Bell Potter Securities Limited ABN 25 006 390 772 AFSL 243480 (Bell Potter) for use by Australian residents. This information is of a general nature and does not take into account your personal objectives, situation or needs. Before making a decision about investing, you should consider your financial requirements and if necessary, seek appropriate independent financial, legal, taxation or other advice. This information is believed to be correct at the time of compilation but is not guaranteed to be accurate, complete or timely. Bell Potter and its related bodies corporate do not accept any liability arising out of the use or distribution of this information. Shares should be considered a long-term investment which may be volatile over the short term and may fall in price. Past performance is not a reliable indicator of future returns.

1300 0 BELLS (23557)
www.bellpotter.com.au

ABN 25 006 390 772
AFSL No. 243 480