A RESURGENCE IN POPULARITY – ISN'T IT SUPER!

Understanding the super recontribution fundamentals

The super recontribution strategy is primarily about withdrawing funds from your superannuation and then recontributing them back into the same or a different fund. By doing this, one can significantly improve the tax components of their superannuation, making it more tax efficient for potential beneficiaries.

KEY BENEFITS OF THE SUPER RECONTRIBUTION STRATEGY

Tax efficiency

This strategy can convert the taxable component of your super into a tax free component and could be particularly beneficial for your beneficiaries upon inheritance.

Flexibility

By recontributing, you can switch between funds, offering a chance to diversify or choose funds that align more closely with your current financial goals.

Optimal growth

Redirecting your funds can lead to potential growth, given you've chosen a high performing fund.

Example[1]

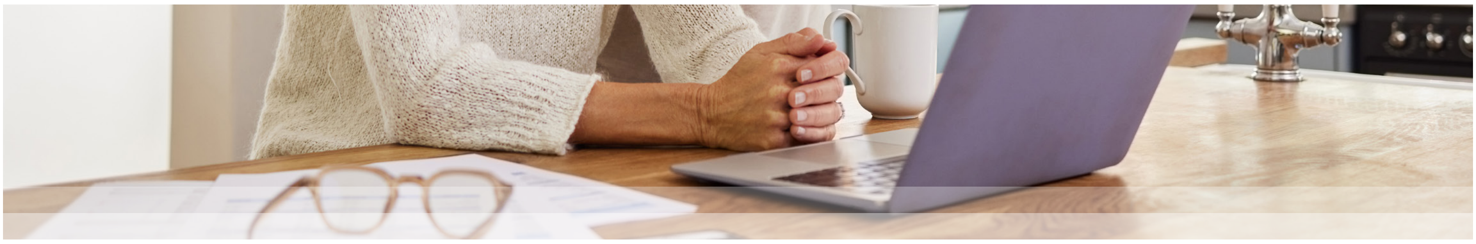
Pam is 65 and still working but wants to minimise the tax her adult children will pay on receiving her super when she passes away. Her current balance is $1 million with a 90% taxable component.

Her adviser recommended a lump sum withdrawal of $440,000 from her super in June 2023, with a $110,000 personal non concessional contribution made before the end of the 2023 financial year and a $330,000 personal non concessional contribution made in the next financial year.

As Pam is over 60, the withdrawals from her super do not incur any personal taxes. However post the implementation of the strategy the underlying components of her benefit have changed as follows:

	Existing benefit	Withdrawal	Post strategy benefit
Tax-free component	$100,000	$44,000	$496,000
Taxable component	$900,000	$396,000	$504,000
Total balance	$1,000,000	$440,000	$1,000,000

This results in a reduction in the taxable component of $396,000 (ie the taxable component of the withdrawal).



If Pam were to pass away just after the strategy was implemented, her adult children beneficiaries would save $67,320 including the Medicare levy (ie 17% of $396,000) in tax due to this reduction in the taxable component.

Contact us for a STEP BY STEP GUIDE TO IMPLEMENTING A RECONTRIBUTION STRATEGY

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WHERE MIGHT ISSUES ARISE?

While the strategy looks straightforward, there are three typical areas of confusion:

1. JOURNALING TRANSACTIONS

- **What it is**
  Making a record of entries of withdrawals and contributions in a super fund without any actual money movement.
- **Problem**
  The ATO says that just journaling doesn't meet regulations. Money or assets must actually exit the fund. Tax Ruling also says a contribution means increasing the fund's capital.
- **Note**
  No set time for funds to exit and return to the fund. For instance, in Pitts v Federal Commissioner of Taxation [2017] AATA 685, transactions made on the same day were considered valid.

2. Impact on total super balance (TSB)

- The TSB is determined yearly using values at 30 June.
- If you withdraw and recontribute before 30 June, it might lead to a lower TSB the next year, enabling more contributions. But this might mean assets stay outside the super longer and any gains being paid to the client – not the super fund.

3. Creating a separate super interest

- When using multiple withdrawals and contributions, setting the tax free contribution in a separate account can make the strategy more effective. For example, on a two stage recontribution of $330,000 twice, using two accounts results in a higher tax free component than one account, saving over $20,000 in potential tax.
- **Trade-off**
  This approach can be more efficient but may raise administration costs and make management more complex.

A recontribution strategy can be valuable for retirement and estate planning, but how it's applied matters for effectiveness and optimisation.

While complex, recontribution offers significant benefits for savvy investors and their beneficiaries. By understanding its core principles and remaining updated on the regulations and nuances, Australians can optimise their superannuation for maximum growth and tax efficiency.

As with any financial strategy, seeking advice from industry professionals can offer tailored recommendations aligned with your individual goals.

Don't take any action without professional advice.

Source: *1. Money Management*

Contact us to read
"STEP BY STEP GUIDE TO IMPLEMENTING A RECONTRIBUTION STRATEGY"