



Re-contribution strategy for a couple to remove ‘inheritance tax’ in super

OVERVIEW

Clients often strive to maximise their legacy and minimise tax implications when passing on their wealth. However, without a strategic approach, achieving these goals can be challenging. The traditional approach may not fully optimise the tax-free component of the super balance. In the light of the recent legislation changes, a super re-contribution strategy emerges as a promising solution to address these concerns and pave the way for a more substantial legacy.

STARTING POINT

- Tony (68) and Maxine (67) have retired a couple of years ago and have been receiving tax free income from their superannuation pension accounts.
- They’ve been drawing down sustainable income, preserving their capital.
- Although the superannuation benefits are tax free to them, their accounts consist of substantial taxable component, which will result in 15% tax + Medicare levy when paid to their adult children.
- Keeping their wealth in superannuation environment means they don’t have to worry about lodging their tax returns.

CLIENT OBJECTIVES

1. Reduce the ‘inheritance tax’ and maximise the benefits passed to their adult children one day.
2. Keep the funds in superannuation and continue to enjoy worry-free, tax-free income.
3. Stay invested and identify a strategy that will allow them to reduce the taxable super component without having to sell down their assets.



IDENTIFIED RISKS

1. Making expensive mistakes by selling down assets in volatile investments.
2. Relative complexity of solutions strategy may prevent client from its implementation.
3. The age limit of 75 may become an issue if clients procrastinate for too long.
4. The re-contributed amount may be reduced if clients made any after tax contributions in the last 12 months.

SFP WORK IMPLEMENTED

- Utilised the individually taxed wrap platform clients were already invested through.
- Created temporary investment account in the same names.
- In-specie transferred \$360K from both Maxine's and Tony's superannuation pension accounts into temporary investment accounts without selling down assets.
- In 24 hours, in-specie transferred the funds from investment accounts back to super, via temporary accumulation accounts, as non-concessional (after tax) contributions, creating tax free component.
- Eventually, moved the funds from the accumulation super accounts into the new pension accounts.
- Re-started the same regular pension withdrawals.

ACHIEVED FINANCIAL OUTCOMES

- \$720,000 previously part of taxable component now forms tax-free component.
- Any non-tax dependants of clients (typically adult children) won't pay 'inheritance tax' on this amount in the future.
- Tax Saved – 17% of \$720,000
- The gross benefit of the one-off re-contribution strategy was \$122,400.
- If repeated in 3 year's time, clients will be able to reduce the taxable component of their super (and directly the potential tax payable by their adult children) even further.



VALUE CREATED



Peace of mind that clients' legacy will not be impacted by unfair tax laws.



Since the implementation, Tony and Maxine have been drawing the same amount of pension as before.



Smoother management and minimised stress at distribution of inheritance.



Ongoing guidance and review of their circumstances will provide Tony and Maxine with additional opportunities to repeat the re-contribution strategy in 3 years' time.


ASSUMPTIONS



This Case Study is illustrative only and is not an estimate of the investment returns you will receive or fees and costs you will incur. This Case Study is based on the following assumptions:

- Clients' super accounts consisted 100% of taxable components
- Adult children are not financially dependent
- Assumed 2% Medicare rate for tax purposes

GET EXPERT HELP

Speak to one of our financial advisers at Sydney Financial Planning, contact our team to make an appointment to get started.

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advice that stands the test of time