LORREQUER
Wealth & Advisory

Cash out and re-contribute to super

The re-contribution strategy involves withdrawing the taxable component of your superannuation and re-contributing the amount as a non-concessional contribution, effectively converting your taxable component into tax-free component to make your savings more tax effective.

Benefits

- Your tax-free component will increase. This component can be withdrawn tax-free even if you are under age 60 (subject to preservation rules).
- The re-contribution strategy can help to reduce potential tax payable when receiving future account based pension payments between preservation age and age 60.
- The tax-free component is also not taxable if paid as a lump sum death benefit to any of your dependents (even adult children). This can increase the amount payable to your family or estate.
- Depending on your income for the year and satisfying eligibility requirements, the Government may contribute $0.50 for every $1.00 of non-concessional contributions you make, up to a maximum of $500.

How it works

To implement this strategy, you need to be able to withdraw from superannuation. This means you must have either met a condition of release or you need to have unrestricted non-preserved money in your account. You must also be eligible to contribute to superannuation which means you need to either be under age 65 or age 65-75 and meet a work test.

If your superannuation fund includes both taxable and tax-free components the withdrawal needs to be proportionally drawn from both components. For example, if your tax-free component makes up 20% of your account balance prior to withdrawal, then 20% of any withdrawal must be tax-free component and 80% taxable.

If you are over age 60 there is no tax payable on either component unless you are in an unfunded superannuation scheme. If tax is payable, your superannuation fund may withhold lump sum tax from the withdrawal at the following rates:

Your age	Tax component		Maximum tax rate
Between preservation age and age 60	Tax-free component		0%
	Taxable component	Up to $205,000*	0%
		Over $205,000*	15%^
60 or over	All components		0%

**Low rate cap applicable for 2018/19. I ^Plus 2% Medicare Levy.*

The aim is to withdraw as much of your taxable component as possible, but with minimal tax and ensuring the money can be recontributed to superannuation without exceeding caps.

Important: Any advice in this communication has been prepared without taking into account your objectives, financial situation or needs. Because of this you should, before acting on any advice in this communication, consider whether it is appropriate to your personal circumstances.

If you are under age 60 (but at least your preservation age), the re-contribution strategy is generally most effective if the taxable component included in the withdrawal does not exceed the low rate cap because this means no lump sum tax will be payable. After age 60, you can withdraw any amount tax-free.

You then need to re-contribute the withdrawn amount back into your superannuation account as a non-concessional contribution (NCC). It is important to ensure this amount does not cause your non-concessional contribution cap to be exceeded.

From 1 July 2017 *you must have total super savings of less than $1.6 million at 30 June to be eligible to make any NCCs the following year.*

If you are under age 65 on the 1st of July you are able to bring forward two years of non-concessional contributions, enabling you to contribute up to three years of contributions (maximum $300,000) in one year with no further contributions in the next two years. This limit will reduce if your total superannuation savings are more than $1.4 million on the 30th of June prior to the financial year in which you trigger the bring-forward rule. These rules are complex so it is important that you get advice.

Consequences

- If you are under age 60, any taxable component withdrawn counts towards your assessable income and can impact your entitlement to certain tax offsets and concessions. It may also affect child support liabilities.
- If you have made personal contributions for which you wish to claim a tax deduction, you must lodge a notice of deductibility form with your super fund (and wait for confirmation that they have received the notice) before requesting any withdrawal.
- The re-contribution back into your superannuation account will be preserved unless you continue to meet a condition of release.
- You will not be eligible for the Government Co-contribution if you exceed your NCC cap or your total superannuation savings exceed $1.6 million.
- Your re-contribution into superannuation counts towards your NCC. If you exceed your NCC cap tax penalties may apply.
- From 1 July 2017 if you have total superannuation savings of $1.6 million or more you will not be eligible to make non-concessional contributions.
- From 1 July 2017 the total amount of super monies used to start pensions will be capped at $1.6 million. All superannuation income streams are assessed against the transfer balance cap regardless of when it first commenced. You can retain excess amounts in your accumulation accounts where tax at 15% continues to apply.
- Fees may be charged for contribution. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- The government may change superannuation legislation in the future.

Date: 1 July 2018

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