money matters.

with Alan Tickle

In recent weeks, there has been an increase in enquiry for advice from new clients who have either a dormant relationship with their adviser or product provider. In particular there were significant amounts in Industry Superannuation Funds with the new clients lamenting not getting advice before they turned 65.

Hidden death tax can be avoided or managed

The handicap with Industry and Government Superannuation Funds, is that they are generally limited in the scope of the advice they can give. This primarily is because they only have a superannuation accumulation or pension fund that they can talk about, not the alternative such as an investment account.

Failure to address or understand the potential death benefit tax that is attached to superannuation has long term consequences.

When an employer contributes to superannuation or a member makes a deductible contribution, 15% contribution is taken from that amount.

That type of contribution is taxable and attracts 15% death benefit tax if paid to a non-financial dependent upon the death of the member even if paid years later to the estate out of a superannuation pension.

Timing retirement and re-contribution strategies

Meeting a condition of release of superannuation before age 65 through retirement or working less than 10 hours per week, enables re-contribution back into superannuation as tax free contributions. (It is important to keep the un-deducted contribution separate which often means opening a separate superannuation account).

There are qualification limits but it's possible to re-contribute up to $300,000 using the bring forward rule, prior to turning 65.

This potentially saves $45,000 death benefit tax.

After age 65 the opportunity may still exist but on a lower scale and with qualification constraints.

Is a superannuation pension the best option?

In answering that question, there are many considerations.

The return on assets whether invested in superannuation or in an investment account with the same underlying assets, is the same.

A superannuation pension can tick a lot of boxes in meeting retirement income needs but the death benefit tax consequences needs to be understood and managed.

After allowing for Senior Australian Tax Offsets, a single person of pension age can have taxable income (including any age pension) of $32,279 before paying tax and a couple $57,948 between them.

This tax offset means that investing outside of superannuation may produce the same tax free return as a superannuation pension.

When producing retirement income, the decision between a joint investment account or a superannuation pension, needs to consider future capital gains, and the impact that a windfall such as an inheritance might have on future assessed taxable income, as well as the single tax offset verses couple's rate.

Review existing allocated pensions prior to death

Determining if death benefit tax is to apply on existing superannuation pensions and what the Centrelink or aged care assessment outcome would be if the superannuation was changed to an investment account, is a question that should be addressed as part of a review process.

Closing superannuation and using the proceeds to establish an investment account prior to death, can be a viable option as well as a avoiding the consequences that death benefit tax has on estate proceeds.

Seeking advice is the answer.

This information and advice is of a general nature only and no reliance should be placed on the information before seeking individual advice from a Financial Planner and Taxation Adviser to ensure the appropriateness to individual circumstances. Alan Tickle, Jonathon Tickle and Your Heritage Financial Planning are both authorised representatives of Securitor Financial Group AFSL 240687 ABN 48009189495.

Our Client's Best Interest is Central to all our Endeavours

- Income Protection & Life Insurance
- Superannuation
- Retirement Planning
- Investment Portfolio Management
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