## SMART MONEY

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# Withdrawal and recontribution has appeal

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One of the common do-it-yourself super strategies recommended by many advisers, especially for clients who have retired before they turn 60, is making a lump sum withdrawal of taxable super and then recontributing this as a non-concessional or after-tax contribution.

The strategy is suggested as a way of saving tax on a super pension taken by anyone under the age of 60 as well as a way to save tax on death benefits where any super balance is inherited by a beneficiary who isn't entitled to a tax-free payment.

While it is a strategy that makes sense for anyone seeking to maximise both a super contribution or a benefit, says Emma Boer, a senior technical manager in Sydney with DIY super specialist Dixon Advisory, one point to note is that the strategy of making personal tax deductible or after-tax contributions to super should be preferred to a recontribution strategy where this is available.

The benefits of making a personal contribution to super, either in cash or a transfer of assets, usually outweigh the current or potential future tax savings from a recontribution strategy.

For example if someone on the top tax rate of 46.5 per cent personally contributes an after-tax sum of $150,000 into super, which may have been earning 6 per cent outside super, instead of paying $4185 in tax on the $9000 of income, then the individual will pay $1350 if the super savings are in the accumulation phase, or no tax if the investments are in super once the fund starts paying a pension.

In addition, because it is an after-tax contribution, this will go towards the proportion of super that is considered to be tax-free when it is inherited by any beneficiary. This includes beneficiaries not regarded as dependants, who are entitled to tax-free payments. Adult children who ordinarily see any taxable super payments reduced by a death benefit tax of 16.5 per cent fall into this category.

According to Ed Bernard, a technical adviser with DIY super administrator SuperGuardian, there are various reasons that would prompt someone to consider a recontribution strategy. The strategy generally involves super fund members withdrawing some of their super fund balance, then recontributing an amount back into the fund.

For members aged between 55 and 60, tax is still payable on super pensions to the extent that the member balance comprises the taxable component.

However, for those in this age bracket who are eligible to take lump sums because, for example, they have retired, the first $145,000 of withdrawals from the taxable component of their super will be tax free as a lump sum.

As long as the money recontributed is within the contribution limits, the withdrawal can then be put back into the fund as a non-concessional or after-tax contribution. As such, it becomes part of the fund's tax-free component, increasing the overall proportion of tax-free super versus taxable super in the fund.

For anyone aged from 55 to 60, this means that if they then began a super pension, a higher proportion would be tax free. In many instances, a withdrawal and recontribution can be the only tax-free proportion in the fund.

For example, if a fund member aged between 55 and 60 with a $600,000 super balance that is all classified as taxable starts a minimum pension of 4 per cent of the balance, or $24,000, then all this income is considered tax assessable, with an entitlement to a 15 per cent rebate.

The rebate is calculated simply by determining 15 per cent of the income, which would be $3600 on $24,000. Because income tax on $24,000 is only $3060, the rebate would cancel out any tax owed.

If a member chose to take a higher benefit, say $50,000, the tax plus the Medicare levy on this would be $9750 and the rebate would be $7500 (15 per cent of $50,000), so there would be $2250 in tax to pay.

According to Boer, for people age 55 to 60, a recontribution strategy involving the withdrawal of the $145,000 permitted to be taken tax free will save any member on a top personal tax rate of 46.5 per cent $1827 each year until they reach age 60.

This is the amount of tax that would be payable on the pension if it were not being paid from a tax-free component. It is calculated assuming the member is taking 4 per cent of the $145,000 as a pension ($5800) and multiplies this by the relevant personal tax rate (46.5 per cent) minus the 15 per cent tax rebate (or 31.5 per cent). For those on a 31.5 per cent tax rate, the annual tax saving would be 16.5 per cent of $5800, or $957.

**The benefits of making a personal contribution to super in cash usually outweigh the tax savings from using a recontribution strategy.**

For eligible individuals, the first $145,000 in withdrawals is tax free.