TRAC

The Retirement Advice Centre

The "Your Guide To" Series

Cash Out and Re-Contribution Strategy

David Reed

Original Blue Pty Ltd ATF The Reed Family Trust t/as The Retirement Advice Centre is a Corporate Authorised Representative of Millennium3 Financial Services Pty Ltd ABN 61 094 529 987
Australian Financial Services Licensee Number 244252. Unit 7, 50 Borthwick Avenue Murarrie Qld 4172

Cashing out taxable money from super and re-contributing it back as a non-concessional contribution increases your tax-free component.

What are the benefits?

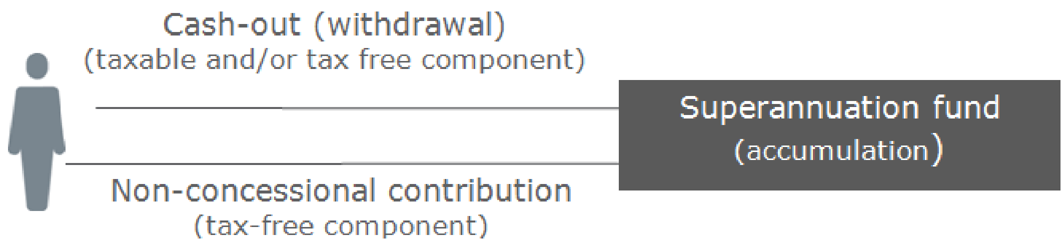
Your tax-free component in super will increase.
If you commence a pension from super prior to age 60, the increased tax-free component means you'll pay less tax on pension income.
In the event of your death, it will reduce the tax on your death benefit if your beneficiary is a 'non-tax dependant' (eg an adult child).

How does the re-contribution strategy work?

Cashing out from super and re-contributing the money as a non-concessional contribution changes your money from 'taxable' to 'tax-free' component.

The benefit of having 'tax-free' component is that it is always tax-free, regardless of how or when it is paid. This can reduce the tax you pay on superannuation pension income if you start a pension before age 60. It can also reduce the tax payable on your death benefit if your beneficiary doesn't meet the definition of 'tax dependant' (such as if it's paid to an adult child).

The re-contribution strategy consists of two parts – a cash-out and a re-contribution.



Cash-out

To be eligible to cash money out of super, you must first meet a condition of release. This generally means you will be age 65 or have retired since reaching preservation age (preservation age is gradually increasing to age 60 depending on your date of birth).

Depending on your age and the tax components being withdrawn, the super fund may withhold tax from the amount being cashed out. If your super fund account includes a tax-free component, the cashed out amount will be drawn proportionately from your taxable and tax-free components (you cannot choose to draw down from your taxable component alone).

Age	Tax component		Maximum tax rate
Between preservation age and age 60	Tax-free		0%
	Taxable	Within $195,000*	0%
		Exceeds $195,000*	15%
60 or over	All		0%

** This low rate cap applies for the 2015/16 financial year. This cap is reduced by amounts previously applied to the low rate cap.*
*** Medicare levy may also apply.*

Re-contribution

To be able to re-contribute the cashed out money back into super, you must first be eligible to contribute to super. This means you must be either under age 65 or you have met the applicable work test this financial year.

The re-contribution must be a non-concessional (personal after-tax) contribution. Non-concessional contributions form part of your tax-free component, so this strategy effectively changes your taxable component into tax-free component.

Contribution caps

Contribution caps apply to superannuation contributions. Non-concessional contributions count towards your *non-concessional contributions cap*.

The non-concessional contributions cap for the 2015/16 financial year is $180,000.

If you are under age 65 on 1 July you can bring forward two future years' caps of contributions to enable contributions of up to $540,000 over a three year period. This bring forward rule is triggered if you make non-concessional contributions which exceed the annual cap ($180,000 in 2015/16) in a financial year.

Age at 1 July 2015	Annual non-concessional contributions cap	3-year non-concessional contributions cap
Under 65	$180,000	$540,000
65 or older	$180,000	Not applicable

If you exceed your non-concessional cap, excess contributions will be taxed at 49%.

For excess non-concessional contributions made after 1 July 2013, you can avoid the 49% tax by choosing to withdraw the excess contributions from super. If this election is made, 85% of the associated earnings will also need to be withdrawn and will be taxed at your marginal tax rate.

The non-concessional contributions cap is indexed annually. If you trigger the bring-forward rule, you will not benefit from indexation during the three year bring forward period.

Anti-detriment impact

A potential negative impact of the cash out and re-contribution strategy is that it has the potential to reduce any final benefit paid upon your death.

Some superannuation funds increase the amount of a death benefit paid by making an anti-detriment payment. It is not compulsory for super funds to offer anti-detriment payments. If they do, the anti-detriment payment can only be made if your death benefit is paid as a lump sum to an eligible beneficiary, such as a spouse or child, either directly or via your estate. The anti-detriment payment represents a refund on contributions tax paid and is calculated based on the taxable component of a death benefit (excluding any insured amount).

As cashing out and re-contributing reduces the taxable component of your super, it may also reduce any potential anti-detriment payment made upon your death.

Other things you should know

- All contributions to super are preserved until a condition of release is met.
- If you have made personal contributions to super for which you wish to claim a tax deduction, you must lodge your notice of intent to claim a deduction form with the superannuation fund (and wait for confirmation that they have received the notice) prior to withdrawing from super.
- If insurance is held inside the superannuation account that is to be closed, it is important to ensure replacement cover is in place prior to rolling over.
- If you triggered the bring forward rule in previous years, your cap may be less than what is stated above because you will not get the benefit of indexation until your three year period expires.