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Cash Out – Recontribution Strategies

This is a very complex area of financial planning that, if implemented correctly can assist in the passing of intergenerational wealth.

Getting this strategy wrong \ contributing back to the wrong fund or even superannuation consolidation can be very costly if not executed correctly.

We have attached an MLC version from their tech team as we believe this is personalised.

This is technically not one strategy, it is a few combined together.

Thus the complex nature of the article we have chosen.

Kind regards,

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Recontribution strategy

There are many benefits and key advice considerations when withdrawing and recontributing into super.

Background

If a full condition of release is met, there may be benefits to withdrawing a lump sum from unrestricted non-preserved (UNP) amounts in super and recontributing as a non-concessional contribution (NCC) back into the member's super fund (same or separate fund) or their spouse's super fund.

A recontribution strategy increases the tax-free component of the super fund and may have a range of benefits including:

- reducing tax on:
  - taxable income stream payments,
  - lump death benefits paid to non-tax dependants, or
  - death benefit pensions paid to tax dependants

  where deceased and beneficiary are <60.
- managing super balances between couples, which can assist with:
  - maximising amounts in concessionally taxed retirement phase pensions,
  - managing total super balances (TSB) to preserve contribution eligibility, or
  - maximising social security benefits if spouse is below Age Pension age.
- streamlining management of death benefits by recontributing into own super interest.

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What is the recontribution strategy?

The aim of a recontribution strategy is to maximise the tax free component of a superannuation income stream and/or superannuation death benefit.

To achieve this, the strategy focuses on the tax effective withdrawal of taxable components and contributing these benefits back into superannuation as a non-concessional contribution (or another type of contribution) that forms part of the tax fee component.

Key considerations

Before contemplating the recontribution strategy, check the individual's eligibility to withdraw their superannuation benefits and their eligibility to contribute to superannuation (i.e. recontribution).

Refer to the table below for key considerations.

Issue	Considerations
Access to super	▪ Are the benefits unrestricted non-preserved? ▪ If benefits are preserved or restricted non-preserved, can a full condition of release be satisfied? ▪ Does the trust deed of the super fund restrict access? If yes, can the benefits be rolled over to another fund in accordance with portability rules to overcome this restriction? ▪ Refer to our Guide to accessing super - conditions of release for more information on the common conditions of release with nil cashing restrictions.
Tax implications	▪ Are there any tax implications for the withdrawal? ▪ If the client is close to age 60 consider waiting until on or after the 60th birthday. ▪ If utilising the low rate cap, the withdrawal could impact entitlement to any assessable or taxable income related benefits. Refer to section 'Other impacts of withdrawals under the low rate cap' below.
Eligibility to contribute	▪ Can a superannuation contribution be made? ▪ What's the client's TSB?
Access to recontribution	▪ The superannuation contribution (recontribution) may be preserved. Can a condition of release be satisfied in respect of the new contribution, including the commencement of a transition to retirement income stream (where necessary)?
Contribution caps	▪ The recontribution counts towards the client's non-concessional (NCC) cap. Would the client prefer to use their NCC cap with monies already outside of super?
Consider impact on future contribution opportunities	▪ Does the client want to make future contributions that depend on their TSB? ▪ Client circumstances may change on receiving an inheritance, termination payment or sale proceeds from an investment asset. ▪ Recontribution may impact their ability to make additional contributions in future years when new funds are available. ▪ Refer to our TSB impact on contribution eligibility article for more information.

Who may it suit?

Broadly, the recontribution strategy may be suitable for individuals who are under 75 (unless eligible to use the downsizer contribution) with access to their super, eligible to contribute and who:

- wish to commence a retirement phase pension under age 60
- have a large taxable component and non-tax dependant beneficiaries
- have both tax and non-tax dependant beneficiaries
- are members of a couple, where one may be eligible for social security concessions or payments and the other is under Age Pension age, or
- are members of a couple and wish to manage their transfer balance cap (TBC), total super balances (TSB) to maximise contributions and retirement phase interests

Advice tip: Removal of work test and extension of bring-forward

The removal of the work test and the extension of the bring-forward rule to older clients since 1 July 2022 provides opportunities to implementing various recontribution strategies including:

- recontributions to manage future death benefit tax when proceeds are expected to be paid to a non-tax dependant
- where a death benefit becomes payable to a beneficiary and they wish to either hold the funds in accumulation, or run a single account-based pension (where they also have their own member pension), cashing the death benefit from super before recontributing to super
- where one member of a couple has or is likely to fully utilise their TBC, withdrawing funds from accumulation and recontributing to a spouse's account to maximise combined retirement phase interests, and
- withdrawal and recontribution to an older spouse's account to manage TSB and maintain contribution eligibility for a younger spouse.

Why use the recontribution strategy?

Tax benefits for income streams

Tax effective income streams for clients aged less than 60

The taxable component of a superannuation income stream is taxed whilst the individual is under age 60. The recontribution strategy reduces tax payable by increasing the tax free component which is the tax free portion of income stream payments. The additional benefit is to increase the tax free component of any potential death benefit paid from the income stream.

Tax free component of a superannuation income stream

When a superannuation benefit (lump sum or income stream payment) is paid from a superannuation income stream, the benefit may include both tax free and taxable components calculated in the same proportion as those components that make up the superannuation interest when the income stream commenced (known as the 'proportioning rule'). The proportions of tax free and taxable components at the commencement of the income stream are fixed for the duration of the income stream.

For individuals under age 60, the tax free component of a superannuation income stream payment or lump sum is tax free and not included in the individual's assessable income.

Individuals aged 60 or over receive superannuation income streams from a taxed source completely tax free, irrespective of the underlying tax free and taxable components. However, the underlying tax components will determine the components of any resulting death benefit.

Tax benefits for super death benefits

The recontribution strategy may provide significant estate planning benefits by maximising the tax free component of an individual's superannuation benefits and any potential death benefit.

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This is important if the beneficiary is a non-dependant for tax purposes, as the taxable component of a death benefit is subject to tax. A death benefit may be paid to a non-dependant adult child upon the death of a parent. For example, this may occur after the death of the last surviving member of a couple.

Recontributing can also help to reduce tax implications for death benefit pensions paid to eligible dependants where both the deceased and eligible beneficiary are under 60. For such beneficiaries, the taxable component of the pension payment is also subject to tax until the beneficiary reaches age 60.

Tax free component of a superannuation death benefit

A superannuation death benefit will include a tax free component in the same proportion as the tax free component makes up the superannuation interest just before the benefit is paid.

When a death benefit is paid from an income stream, the proportion of tax free and taxable components at the commencement of the income stream are used to determine the tax free and taxable components of the death benefit.

The tax free component of a lump sum death benefit is tax free and not included in the assessable income of the recipient. Importantly, the tax free component is received by a non-dependant (for tax purposes) tax free. Dependants (for tax purposes) receive a lump sum death benefit tax free irrespective of the underlying tax components.

Refer to our **Superannuation death benefits** guide for the definition of dependants for tax purposes.

Managing a couple's super balances

Couples with varying superannuation balances may benefit from a cash-out and contribution into their spouse's account. Key benefits of such a strategy may include:

- helping to manage TSB between members of a couple to preserve eligibility to make different types of contributions
- maximising the amount that a couple combined can invest in concessionally taxed retirement phase pensions under the TBC, and
- maximising social security benefits where one member of a couple is over Age Pension age and entitled to a benefit, and their spouse is under their Age Pension age.

Managing TSB to make contributions

Non-concessional contributions and bring-forward

The annual non-concessional contributions (NCC) cap of $110,000 (2023/24) is available to clients under 75 with a TSB of less than $1.9 million as at 30 June of the prior financial year. Since 1 July 2022, a work test is not required to make NCCs.

Eligibility to make NCCs

Age	Eligible to make personal non-concessional super contributions?
Less than 75	Yes (subject to TSB)
Age 75 but less than 28 days after end of month turned 75	Yes, but contributions must be received by 28th day after the end of the month in which the individual turns 75 (subject to TSB)
Following 28th day after end of month turned 75	No

Clients with a TSB below $1.68 million at 30 June of the previous financial year may be eligible to make up to $330,000 of NCCs using the bring-forward rule.

To use the bring-forward rule, a member must be under age 75 on 1 July of the relevant financial year. You should check if the client is already in a bring-forward period. The NCC cap available using the bring-forward rule depends on the client's TSB as illustrated in the table below.

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NCC bring-forward TSB thresholds 2023/24

TSB as at prior 30 June	Bring forward period	Maximum allowable NCC
Below $1.68m	3 years	$330,000
$1.68m to less than $1.79m	2 years	$220,000
$1.79m to less than $1.9m	1 year	$110,000
$1.9m or more	No	Nil

Advice tip: Downsizer and recontribution

Where NCC caps, TSB or age limits a recontribution opportunity, the downsizer contribution provisions may help to facilitate a contribution strategy where an eligible dwelling is sold. There is no upper age limit or TSB threshold for downsizer contributions, provided the other eligibility rules are met.

Refer to our Downsizer contributions article for eligibility rules and practical application.

Concessional contributions and catch-up provisions

The annual concessional contributions (CC) cap of $27,500 is available to clients under 67, or age 67-74 and meet the work test (or work test exemption) if making personal deductible contributions. Contributions must be received by 28th day after the end of the month in which the individual turns 75 (subject to TSB if utilising catch-up).

A client's actual CC cap may be higher if they are eligible to use any unused concessional cap amounts carried forward since 1 July 2018 under the catch-up provisions. To be eligible, a client must have a TSB below $500,000 on 30 June of the prior financial year.

The 'work test exemption for recent retirees' aged 67 to 75 (up to the 28th day of the month following their 75th birthday) allows a super fund to accept personal contributions for which a tax deduction is claimed, i.e. personal deductible contributions, in the financial year after the member last met the work test (the previous financial year). To be eligible the member's total super balance on 30 June of the previous financial year must be less than $300,000 and the member must have met the work test in the previous financial year, and not have previously used the work test exemption in a prior financial year.

Managing the transfer balance cap (TBC)

In cases where one member of a couple has a superannuation balance approaching or exceeding $1.9 million (general TBC for 2023/24), consider a recontribution strategy by cashing out of their super and recontributing into their spouse's account, if eligible. This may allow more of the couple's superannuation to be moved to retirement income streams, which enjoy tax free earnings.

Example

Pranav (65) has $2,230,000 in accumulation phase. He is considering retiring and will commence an account based pension with his accumulation balance. He is married to Geeta (62) who is already retired. She has $200,000 in an existing account based pension.

Pranav can withdraw $330,000 and contribute Geeta's superannuation account (assuming she is not in a bring-forward period and has no other super). Pranav then commences an account based pension with his remaining $1.9 million accumulation balance and Geeta commences an account based pension with the $330,000 contributed to her superannuation account.

The withdrawal from Pranav and contribution to Geeta's superannuation account has ensured that an additional $330,000 could be maintained in a retirement income stream with tax free investment earnings. If the amount remains in Pranav's account, it must remain in accumulation phase where earnings are taxed at a maximum of 15%.

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Maximising social security entitlements

An individual who has reached Age Pension age may increase their entitlement by withdrawing a lump sum from super/pension and recontributing the funds to their younger spouse's account.

Super in the accumulation phase is not means tested while the account holder is less than their Age Pension age. You should ensure any social security benefit outweighs costs, including tax on earnings while in accumulation.

Consider the estate planning implications of a recontribution and update beneficiary nominations where required.

Streamlining management of death benefits

For a surviving spouse, the recontribution strategy can also be used to streamline the management of death benefits, which cannot otherwise be consolidated with a member's own interests. This involves recontributing death benefits to facilitate holding funds in accumulation, or in a single pension combined with their existing member benefits.

This may be useful where a surviving spouse wants to minimise the number of accounts they have, or due to exceeding the TBC because of the death benefits and needing to withdraw funds as a result.

Planning for terminal medical condition

If a client is terminally ill and both the client and their spouse are aged less than 60, the recontribution strategy may enable the surviving spouse to receive a tax-free pension. This is because the taxable component of a death benefit pension paid to a beneficiary where both the deceased and beneficiary are under age 60, is subject to tax at the beneficiaries MTR less a 15% tax offset on the taxable component.

This strategy involves the terminally ill person cashing out some or all their tax free super and recontributing the money as an NCC. Under the terminal medical condition of release, the amount withdrawn is tax free regardless of their age and the underlying tax components. You should consider the benefits of recontributing into the spouse's account where accessibility is not a concern, and the spouse wishes to retain some of the amount in super accumulation.

Applying the recontribution strategy

Maximising the tax free component of a superannuation income stream (preservation age but under 60)

Preservation age is gradually increasing to age 60, which is also the age at which superannuation benefits are generally tax free. Therefore, only clients whose preservation age is less than 60 and who intend to commence an income stream prior to age 60 can utilise the recontribution strategy to reduce tax payable on income stream payments. Refer to the table in the Appendix for preservation age.

When a client who is at least preservation age but under age 60 (has met a full condition of release) withdraws a lump sum from superannuation to undertake a recontribution strategy, the taxable component of the lump sum counts towards the individual's available low rate cap ($235,000 in 2023/24). The taxable component within the low rate cap is included in assessable income but subject to a 0% rate of tax (may affect any Government benefits and offsets the client receives – see Other impacts of withdrawals under the low rate cap).

The proportioning rule limits the application of the recontribution strategy. Under the proportioning rule, an individual cannot nominate the amount of tax free and taxable components to withdraw. Instead, each component must be withdrawn in the same proportion as those components that make up the superannuation interest.

Therefore, if an individual withdraws the taxable component within the available low rate cap, then they must also withdraw a proportional amount of tax free component. Where the tax free component makes up a significant proportion, a larger amount may be withdrawn to utilise the available low rate cap, in which case, the NCC caps may need to be considered.

The amount withdrawn is recontributed as a NCC which forms part of the tax free component of the superannuation interest. If the client commences a superannuation income stream, the tax free component of

income stream payments is tax free. Any taxable component of income stream payments is taxed at the client's marginal rate less a 15% tax offset. However, the taxable component of an income stream is only subject to tax until the client reaches age 60. As the potential tax savings represent a short/medium term gain, consider the costs of undertaking the strategy. Refer to section Other impacts of withdrawals under the low rate cap.

Advice tip: Earnings and tax components

If funds are contributed to a new account and a pension is commenced immediately, all future earnings will be included in the tax-free component. This is because the tax components of a pension as a percentage are set at commencement and do not change. This potentially allows any future amount to be paid out tax–free.

If the recontributed amount is invested and maintained in a new accumulation fund, any new contributions or growth in the balance will form part of the taxable component.

Tax implications of withdrawals under the low rate cap

The low rate cap is available for individuals that are at least preservation age (and under age 60) and effectively reduces the tax payable on the taxable component (both elements taxed and untaxed). The low rate cap is $235,000 for the 2023/24 financial year. It is indexed each 1 July based on the increase in Average Weekly Ordinary Time Earnings (AWOTE) and rounded down to the nearest $5,000.

The available low rate cap is calculated by subtracting the non-indexed value of all taxable components (100% of taxed and untaxed elements) of superannuation lump sums received at a concessional rate between preservation age and under age 60.

Example

In 2022/23, Leon (then 59) withdrew $45,000 which comprised of taxable component only. Leon has never withdrawn any other superannuation benefits. Leon's available low rate cap for the 2023/24 financial year is $190,000 ($235,000 - $45,000). He is still age 59.

As the previously received benefits are not indexed when applying this calculation, every 1 July an individual will have at least the increased amount of the low rate cap available, despite the fact that they may have utilised the full low rate cap available in the previous financial year.

Taxation of lump sum benefits – Preservation age and under 60

Taxable component	Within available low rate cap	Exceeds available low rate cap
Taxed element	Nil	15%*
Untaxed	15%*	30%*

* Maximum rates of tax. If an individual pays tax at a lower rate, the lower rate applies. Medicare Levy and Medicare Levy Surcharge may also apply.

All of the taxable component is included in assessable income. Generally, a payer (e.g. superannuation fund) will assume that the full low rate cap is available when determining withholding tax. The actual or final tax liability is determined when submitting the tax return.

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Example – taxable component only

On 1 July 2023, Penny (59) has $300,000 in her superannuation fund, consisting of taxable component (taxed element) only. Penny:

- has never withdrawn any superannuation benefits
- has not triggered the bring-forward rule in the previous two years
- satisfies the retirement condition of release.

If Penny commences an account based pension and elects to take a fixed payment of $12,000 in the 2023/24 financial year, the tax free component of this income stream would be nil.

Alternatively, Penny applies the recontribution strategy before commencing the pension i.e. she withdraws $235,000 of the taxable component and recontributes it as a NCC using the bring-forward rule. Approximately 78.33% of each income stream payment or withdrawal is tax free. The tax free proportion is calculated as:

- Tax free component/purchase price x 100%
- $235,000/$300,000 x 100% = ~78.33%

The assessable amount of Penny's income payments from the account based pension is reduced to $2,600 [(1 – 0.7833) x $12,000]. Depending on Penny's financial position, this may have a significant impact whilst she is under 60 as her pension is subject to tax. In addition, if she dies and assuming she has no death cover, the tax free proportion of a lump sum death benefit would be 78.33%.

Example – tax free and taxable component only

On 1 July 2023, Oscar (59) has $500,000 in his super fund which consists of the following components:

- Taxable components $300,000 (60%)
- Tax free components $200,000 (40%)

Oscar wants to commence an account based pension after applying the recontribution strategy. He has never received any prior superannuation benefits. If Oscar applies the recontribution strategy and withdraws the taxable component up to the low rate cap he would need to withdraw a $391,667 from his superannuation fund.

To work out the total withdrawal amount which includes $235,000 taxable component, divide $235,000 by 60%. This gives $391,667. As this amount exceeds the 3 year bring-forward cap, we limit the withdrawal to $330,000. Oscar can use the 3 year bring-forward cap as he has a TSB on 30 June 2023 below $1.68m and he has not triggered the bring-forward rule in the previous two years.

The lump sum withdrawal of $330,000 is made up of the following components:

- Taxable component 60% x $330,000 = $198,000
- Tax free component 40% x $330,000 = $132,000

The total amount withdrawn of $330,000 is recontributed as a non-concessional contribution.

By applying the recontribution strategy Oscar's tax free component has increased to $398,000 ($200,000 - $132,000 + $330,000) which is 79.6% of the superannuation income stream's purchase price.

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Other impacts of withdrawals under the low rate cap

Clients of preservation age and under 60

Even though withdrawing the taxable component that is within an individual's available low rate cap is taxed at 0%, it may still have a taxation impact on the individual. The withdrawal of this component is included in the assessable income of the individual and tax offsets apply to reduce the tax payable on this component to nil.

Any benefits the individual may be entitled to, or obligations, that incorporate an assessable or taxable income test, could be impacted in that financial year. Some examples include:

- Government co-contribution
- Low income tax offset
- Seniors and pensioners tax offset
- Family Tax Benefits
- Child support obligations

The impact on these entitlements or obligations must be considered.

Clients aged 60 and over

From age 60, superannuation benefits withdrawn from a taxed source are non-assessable non-exempt income. These withdrawals will not affect any taxable or assessable income related measures.

Maximising the tax free component of a superannuation death benefit (estate planning benefits)

Once a client has reached age 60, their superannuation benefits (from a taxed source) are tax free. The recontribution strategy may be undertaken if the client meets a condition of release and can recontribute the amount withdrawn as an NCC. The ability to access benefits and make NCCs is (subject to any fund rules) below.

Clients who turn 60 – 74 (on 1 July) in a financial year	
Access to benefits	See 'conditions of release' table in Appendix. From age 65, unrestricted access to super benefits.
Recontribution	No work test applies
Limit on NCCs	$110,000 annual cap or able to invoke 'bring forward' rule and make up to $330,000 (provided they are not already in a bring forward period). TSB at 30 June of previous financial year may restrict the amount of contributions. To utilise the bring-forward rule, a member must be less than age 75 on 1 July. Subject to TSB thresholds, see NCC bring-forward TSB thresholds 2023/24

Clients who have turned 75 in a financial year*	
Access to benefits	Unrestricted access to super benefits.
Recontribution	Ineligible to contribute beyond 28th day after end of month when turn 75
Limit on non-concessional contributions	Prior to 28th day after end of month client turns 75* $110,000 annual cap or if able to invoke 'bring forward' rule and make up to $330,000 (if they were 74 on 1 July of that financial year and provided they are not already in a bring forward period). Subject to TSB thresholds, see NCC bring-forward TSB thresholds 2023/24 Following 28th day after end of month client turns 75 – NCC cap is nil

*Clients who turn 75 in June are only eligible use the bring-forward up to 30 June of the same financial year.

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Example - Death benefits

Joe (64), a widower, commenced an account based pension with $100,000 consisting of a taxable component only. Joe dies after 2 years.

The balance of the account based pension is $110,000 and will be paid directly as a lump sum death benefit to his independent, adult daughter. As his daughter is not a tax dependant, the death benefit is taxed at up to 15% (plus Medicare Levy of 2%) i.e. $18,700.

If Joe applied the recontribution strategy prior to commencing the income stream, creating a tax free component of $100,000, the death benefit would consist of 100% tax free component and be paid completely tax free.

If benefits remain in accumulation phase, after the recontribution, the proportions of tax free and taxable components changes as investment earnings add to the taxable component.

Other considerations

Buy/sell spreads & capital gain

What is a buy/sell spread?

Prior to applying the recontribution strategy, review the impact of any buy/sell spreads and capital gain that may arise to the superannuation fund and the underlying investments. The impact of these can be limited or removed with careful planning.

A buy/sell spread is the difference between the entry unit price and exit unit price of an investment.

A capital gain may be realised by the superannuation fund where investments in accumulation phase are sold or rolled over in-specie to another super fund.

Consider:

- If rolling over from one fund to another, should the withdrawal be made from the existing fund and the contribution be made into the new fund?
- Withdrawing benefits from investment options that do not incur buy/sell spreads (e.g. cash options) or assessable capital gains. If the superannuation benefits are being rolled over and the recontribution strategy is then applied to the new fund (short term), consider placing the funds to be withdrawn into investment options that will not incur a buy/sell spread.
- If the buy/sell spreads and any resultant taxable capital gain, negate benefits of the strategy.

ATO view of the recontribution strategy

In August 2004, the ATO issued Media Release – Nat 04/058 indicating that the general anti-avoidance provisions will not apply:

- where a person withdraws from their superannuation fund and then recontributes the same or a similar amount back to superannuation, whether it is to the same fund or a different fund (including a fund for their spouse), or
- where a person makes a large undeducted contribution (non-concessional contribution) to a superannuation fund prior to receiving a withdrawal from that fund.

Clarification was sought from the ATO on whether the recontribution strategy for individuals aged 60 or over to minimise the tax on death benefits to non-dependants would trigger the anti-avoidance provisions. In the minutes of the Superannuation Technical Sub-committee held on 5 June 2007, the ATO responded 'that it is unlikely the Commissioner would apply Part IVA to a recontribution arrangement given that a key policy thrust of the simpler super amendments was to provide individuals with greater concessions and more flexibility to manage their superannuation in retirement.'

The withdrawal must clearly leave the superannuation system and be paid in favour of the member. This is essential because the ATO is clear that journal entry withdrawals and recontributions are ineffective.

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Appendix

Conditions of release

Condition of release	Description
Reach preservation age and permanently retire	The member has reached preservation age. A gainful employment arrangement has ceased and the trustee is reasonably satisfied that the member never intends to return to gainful employment (at least 10 hours per week). The gainful employment arrangement may have ceased prior to preservation age.
Cease a gainful employment arrangement on or after age 60	A gainful employment arrangement has ceased on or after reaching age 60. The member's future intention in respect of gainful employment is not an issue. A new condition of release must be met in respect of preserved superannuation benefits that accrue after this condition of release has been met.
Age 65	All benefits may be paid to the member.
Permanent incapacity	Physical or mental ill health where the trustee is reasonably satisfied that the member is unlikely to be gainfully employed in an occupation for which the member is reasonably qualified by education, training or experience.
Terminal medical condition	Two medical practitioners (at least one of which is a specialist in the field of the terminal illness) have certified that the member has an illness or injury that is likely to result in death within 24 months.

Preservation age

Date of birth	Preservation age
Before 1 July 1963	Attained
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

Important information and disclaimer

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