Editorial

August 2021

11 tax facts about superannuation

Compared to other investment structures, super is widely considered to be one of the most tax-effective investment structures available from a wealth accumulation and cash flow generation perspective. Although not a comprehensive list, below are 11 of the top tax facts about super.

Super investment structure

Overview

When investing via super, it's important to understand that there is an accumulation phase and a retirement phase. From a life stage perspective:

- Accumulation phase generally coincides with the time in your life where contributions are being made to your super, and you are accumulating wealth via these contributions and investment earnings. Nearing retirement, some of us may commence a transition to retirement income stream (TRIS).
- Retirement phase generally coincides with the time in your life where you are using the wealth you have accumulated to help fund your retirement lifestyle via either a retirement income stream, lump sum withdrawals, or a combination of both.

With the above in mind, from a tax perspective, the tax facts listed below are grouped according to their relevance to each phase. For example, the tax facts regarding contributions are underneath the title '*Super (accumulation phase)*', as contributions can't be made to a super account in retirement phase.

Super (accumulation phase)

1. Investment earnings in your super. Investment income is generally subject to a maximum of 15% tax. And, capital gains on assets held for longer than 12 months receive a 1/3 (33%) tax discount, which effectively reduces the tax rate to 10%.

2. Concessional (pre-tax) contributions to your super. The amount contributed is reduced by a tax of 15% (contributions tax). When considering salary sacrifice and personal deductible contributions (types of concessional contributions), this tax of 15% may be lower than your marginal tax rate. Please note:

   a. If you have income and concessional contributions totalling more than $250,000, you can pay an additional 15% tax (called Division 293 tax) on some or all of your concessional contributions.
   b. If you have adjusted taxable income of $37,000 or less, you may be eligible to receive the low-income super tax offset (up to $500).
   c. Making concessional contributions to pay for premiums for certain insurance held through super can reduce contributions tax.

3. Non-concessional (after-tax) contributions to your super. The amount contributed isn't reduced by a contributions tax. Please note:

   a. If you have total income less than $54,837, you may be eligible to receive the Government co-contribution (up to $500).
   b. If you make a spouse contribution (i.e. non-concessional contribution to your spouse's super), you may be eligible to receive the spouse contribution tax offset (up to $540). The receiving spouse's income must be less than $40,000.

4. Insurance in your super. Your super fund trustee can generally claim the insurance premiums as a tax deduction, reducing the tax paid by your super fund trustee on your concessional contributions and super earnings. The tax saving is often rebated to your super account, effectively reducing the premium cost by 15%.

5. Saving for a home deposit via your super. If you make voluntary contributions, you may be eligible to withdraw all or part of these contributions plus associated earnings for use as a deposit via the First Home Super Saver Scheme. Please note:

   a. The maximum amount that can be withdrawn is $15,000 of voluntary super contributions per financial year made since 1 July 2017 (up to a total of $30,000 across all years). The amount that can be withdrawn is 100% of eligible non-concessional contributions, 85% of eligible concessional contributions, plus 85% of associated earnings. Tax is payable on the associated earnings and concessional contributions portion of the withdrawal (taxed at marginal tax rates, including the Medicare Levy, less a 30% tax offset).

6. Small business capital gains tax (CGT) concessions. If you are considering selling a small business or the assets it uses, you may be eligible for CGT concessions that help reduce the taxable capital gain associated with the sale, and build your super retirement nest egg in the process. **Please note:**

   a. You may be able to contribute amounts from the CGT 15-year asset exemption and retirement exemption to your super, without using your non-concessional contributions limits.

7. Pension payments from your super. Pension payments from an accumulation phase transition to retirement income stream (TRIS) are generally tax-free if you are aged 60 or over. If you are under age 60, the taxable portion of pension payments is taxed at your marginal tax rate, less a 15% tax offset.

Super (retirement phase)

8. Investment earnings in your super. Investment income and capital gains are generally tax-exempt. Please note: The transfer balance cap, which is currently set at $1.6 million (indexed) per person, limits the amount of super benefits that can be transferred to retirement phase.

9. Pension payments from your super. Pension payments received from a retirement income stream (eg account-based pension or retirement phase TRIS) will be tax-free to you if you are aged 60 or over at the time of receiving the pension payment.

Super (accumulation or retirement phase)

10. Lump sum withdrawals from your super. Any lump sum withdrawals made after 60 years of age are generally tax-free. If you make a lump sum withdrawal and you are aged between preservation age and 60, the taxable component of the lump sum is taxed as follows:

   a. The amount up to the low rate cap amount (currently $215,000) is tax-free.
   b. The amount above the low rate cap amount is taxed at 15% (plus the Medicare Levy).

11. Passing away and your super:

   a. A death benefit lump sum paid to a nominated beneficiary who is a tax dependant is received entirely tax-free. If the beneficiary is a tax non-dependant, then any tax-free component is tax-

   free, but the taxable component is taxed at 15% (taxed element) or 30% (untaxed element), plus the Medicare Levy.
b. Income payments from a reversionary death benefit income stream paid to a nominated reversionary beneficiary who is an eligible pension recipient dependant are received entirely tax-free if you or the reversionary beneficiary are aged 60 years or over at the time of your passing. If both you and the reversionary beneficiary are under 60 at the time of your passing, the pension payments from the reversionary death benefit income stream are taxed as follows:
    a. the tax-free component is tax-free, and
    b. the taxable (taxed element) component is taxed at marginal tax rate plus Medicare Levy, less 15% tax offset.

However, when the reversionary beneficiary turns 60, the pension payments from the reversionary death benefit income stream are tax-free.

Talk to us

Each tax fact outlined above isn't covered in detail (only a brief snapshot is provided) and other important considerations go with each. For example, it's important to consider things such as contribution eligibility, and conditions of release. To discuss how any of the 11 tax facts about superannuation may be relevant to your situation, give us a call. We would love to hear from you!

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Important information: Information is correct as at 20 May 2021.
For references to tax stats and facts you can see an outline via this website link.