

Superannuation – Cash out and re-contribute to super

The re-contribution strategy involves withdrawing some or all of your superannuation balance, and re-contributing the amount as a non-concessional contribution. Non-concessional contributions form part of the tax-free component of your super fund. This strategy may effectively enable you to convert some or all of your existing taxable component into tax-free component.

How it works

To implement this strategy, you need to be eligible to withdraw a lump sum from superannuation. This means you must have either met a full condition of release (such as retirement) or you have unrestricted non-preserved money already in your account.

To enable you to re-contribute the money, you must be eligible to contribute to superannuation which generally means you need to either be:

- under age 67
- age 67-74 and have met the work test, or
- age 67 – 74 and meet the requirements for the work test exemption.

The work test requires that you have worked at least 40 hours over a consecutive 30 day period in the financial year the contribution is made. The work test exemption provides a one-year relief from the work test for recent retirees. It is available:

- in the financial year following the year you last met the work test
- where your total superannuation balance is less than \$300,000 as at the prior 30 June, and
- provided you have not previously utilised the exemption (i.e. the exemption can only be applied once in your lifetime).

1. Make the withdrawal

If your superannuation fund includes both taxable and tax-free components, the withdrawal will be proportionally drawn from both components. For example, if your tax-free component makes up 20% of your account balance prior to withdrawal, then 20% of any withdrawal is tax-free component and 80% is from the taxable component.

If you are over age 60, you are not liable to pay tax on either component if you're the member of a taxed fund. You're only liable for tax on a withdrawal if you are in an unfunded (untaxed) superannuation scheme.

If you are under age 60 (but at least your preservation age), you're entitled to the 'low-rate cap'. This is a lifetime amount that you may withdraw from the taxable component of your superannuation, without paying tax.

The re-contribution strategy is generally most effective if the taxable component included in the withdrawal does not exceed the low rate cap (as no lump sum tax will be payable), or if you're over age 60 and not liable for tax on the withdrawal.

If tax is payable, your superannuation fund may withhold lump sum tax from the withdrawal at the following rates:

Your age	Tax component		Maximum tax rate
Between preservation age and age 60	Tax-free component		0%
	Taxable (taxed) component	Up to \$215,000*	0%
		Over \$215,000*	15%^
60 or over	Tax free and taxable (taxed)		0%

*Low rate cap applicable for FY 2020/21. ^Plus 2% Medicare Levy.

Taxable components received under age 60 must be included in your tax return regardless of whether tax is payable or not. A tax offset will be applied to reduce the tax payable to no more than the rates above. However, as this amount is included in your income for the year, it may impact eligibility for other Government benefits and concessions, and calculation of liabilities that are based on your taxable income.

2. Recontribute the amount to super

After you have made the withdrawal, you need to re-contribute that amount back into your superannuation account as a non-concessional contribution (NCC). It is important to ensure this amount does not cause your non-concessional contribution cap to be exceeded.

You must have a 'total superannuation balance' (including all accumulation and pension accounts) of less than \$1.6 million (current for the 2020/21 financial year) at the prior 30 June to be eligible to make any NCCs the following year.

If you are under age 65 on the 1st of July and your total superannuation balance is less than \$1.4 million, you may be able to bring forward up to two years of non-concessional contributions, enabling you to make a larger contribution sooner.

Note: The Government has proposed to allow individuals under age 67 on the 1st of July to trigger the bring-forward rule from 1 July 2020. Legislation will need to be passed by Parliament for the proposed change to become law. At the time of writing, this proposal has not yet been legislated.

If you make the maximum bring forward contribution in a single year for example, you're not eligible to make any further non-concessional contributions in the next two years. However, if you trigger the bring forward rule in a year, but don't fully utilise the maximum available non-concessional cap in that year, the remaining balance may be contributed in either the next financial year, or the year after.

Once you trigger the bring-forward rule, within your 2 or 3 year bring-forward period, to make any further contributions, you must continue to be eligible to contribute to superannuation and your total superannuation balance will need to stay below the 'general transfer balance cap' (\$1.6m in 2020/21 and may be indexed in the future) each 30 June to entitle you to make any additional contributions in a later year. Other eligibility requirements (such as the work test) must also be satisfied.

The maximum amount you can contribute as a non-concessional contribution, including under the bring forward rule, reduces if your total superannuation balance is more than \$1.4 million on the 30 June prior to the financial year in which you trigger the bring forward rule. These rules are complex so it is important that you get advice to help you understand how the rules will apply to you.

Benefits

These may include:

- Your tax-free component increases. The tax-free portion of your withdrawal is tax-free even if you are under age 60 (subject to preservation rules).
- The re-contribution strategy may help to reduce potential tax payable when receiving pension payments from a superannuation income stream between your preservation age and age 60.
- The tax-free component is also tax free if paid as a death benefit to any of your dependants (even adult children). This may increase the amount payable to your family or estate.
- Depending on your income for the year and satisfying the requirements, you may be eligible for the Government co-contribution. The Government may contribute \$0.50 for every \$1.00 of non-concessional contributions (NCC) you make, up to a maximum of \$500.

Risks and Consequences

- If you are under age 60, any taxable component withdrawn is included in your assessable income. This also applies to any taxable component you withdraw within your available low-rate cap. Even though you won't pay tax on the amount withdrawn within your low-rate cap, the withdrawal may impact your entitlement to certain Government benefits and concessions that are based on your income. It may also affect child support liabilities.
- If you have made personal contributions for which you wish to claim a tax deduction, you must lodge a Notice of Intent form with your superannuation fund (and wait for confirmation that they have received the notice) before requesting any withdrawal, rolling your money to another superannuation fund or commencing a superannuation income stream.
- The re-contribution back into your superannuation account will be preserved (i.e. cannot be accessed) unless you meet a condition of release to allow access to this amount.
- You will not be eligible for the Government co-contribution if you exceed your NCC cap or your total superannuation savings exceed \$1.6 million (other eligibility criteria also apply).
- Your re-contribution into superannuation counts towards your NCC cap. If you exceed your NCC cap significant tax penalties may apply.
- You will not be eligible to make non-concessional contributions if you have a total superannuation balance of \$1.6 million (current for FY2020/21) or more. The total superannuation balance includes your accumulation accounts, retirement income streams, in transit rollovers and may also include certain limited recourse borrowing arrangements in self-managed superannuation funds.
- Fees may be charged for withdrawals and/or contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- The Government may change superannuation legislation in the future.

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