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.

Benefits

- Your tax-free component will increase. 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 can help to reduce potential tax payable when receiving pension payments from a superannuation income stream between preservation age and age 60.
- The tax-free component is also not taxable if paid as a death benefit to any of your dependants (even adult children). This can increase the amount payable to your family or estate.
- Depending on your income for the year and satisfying eligibility requirements, the Government may contribute $0.50 for every $1.00 of non-concessional contributions (NCC) you make, up to a maximum of $500.

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 or you need to have unrestricted non-preserved money already in your account. To enable you to re-contribute the money, you must also be eligible to contribute to superannuation which generally means you need to either be under age 65 or age 65-74 and meet a work test.

If your superannuation fund includes both taxable and tax-free components, the withdrawal must 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% taxable component.

If you are over age 60, you are not liable to pay tax on either component unless you are in an unfunded (untaxed) superannuation scheme. 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 component	Up to $200,000*	0%
		Over $200,000*	15%^
60 or over	All components		0%

*Low rate cap applicable for 2017/18. ^Plus 2% Medicare Levy.

If you are under age 60 (but at least your preservation age), the re-contribution strategy is generally most effective if the taxable component included in the withdrawal does not exceed the low rate cap because this means no lump sum tax will be payable. After age 60, you can withdraw any amount tax-free.

You then need to re-contribute the withdrawn 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 total superannuation savings (including all accumulation and pension accounts) of less than $1.6 million 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, you may be able to bring forward two years of non-concessional contributions, enabling you to contribute up to three years of contributions in one year, with no further contributions in the next two years. This limit will reduce if your total superannuation savings are 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 understand how the rules will apply to you.

Risks and Consequences

- If you are under age 60, any taxable component withdrawn is included in your assessable income. This also applies to taxable component you withdraw within your available low-rate cap. This may impact your entitlement to certain tax offsets 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 Intention 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 unless you continue to meet a condition of release.
- 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.
- 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 total superannuation savings of $1.6 million or more.
- 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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