Equity Trustees

MEDIA RELEASE

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Superannuation might not be as tax effective after you die, Equity Trustees warns

Superannuation is widely known as the most tax effective way to build wealth, but Equity Trustees warns estate planners to investigate the tax status of those receiving an inheritance via superannuation.

Equity Trustees Senior Manager Tax, Chris Holloway said while superannuation may be one of the most tax effective ways to save while you're alive, there will be some tax pitfalls for certain beneficiaries after you die.

"If you or I were to withdraw our super after we turn 60 it is tax free, but it might not be the same case for your intended beneficiaries if it ends up being part of an estate" Mr Holloway said.

The tax specialist went onto explain that superannuation is treated differently depending on whether your super is paid as a lump sum, income stream or a mixture of both, and if your beneficiary or beneficiaries are classified as 'tax-dependants'.

A tax-dependant includes:

- a current spouse, including a de facto relationship
- any children of the deceased who are **under the age of 18**
- those in an interdependency relationship with the deceased.

Mr Holloway explained if you're a tax-dependent then you won't pay any tax on the superannuation payment.

However, if you're a non-dependent and a superannuation beneficiary, for example a child of the deceased who is over 18, the tax treatment of these funds is broken into the following elements:

BENEFICIARY	SUPERANNUATION INCOME TYPE	MAXIMUM TAX RATE*
Tax non-dependent	Tax free element (any after tax contributions by the fund holder when they were alive)	0%
Tax non-dependent	Taxed element (contributions and earnings taxed at 15% inside the fund while the fund holder was alive)	15%
Tax non-dependent	Untaxed element (example untaxed government superannuation fund while the fund holder was alive)	30%
Tax non-dependent	Life insurance payout inside super	30%

*Plus 2% Medicare Levy is paid directly by an individual

"This is the maximum rate so if you're a tax non-dependant and you receive a death benefit and you're on a higher than 30% tax rate, you will actually receive an offset," Mr Holloway said.

"If a superannuation death benefit gets paid into a deceased estate, the tax return is prepared as if no beneficiary was entitled and if there are non-dependent beneficiaries, the resulting tax is a debt of the estate," he continued.

"Superannuation dependents, such as adult children, current spouses, current children, or people with an interdependent relationship with the deceased, can directly receive a superannuation death benefit."

Mr Holloway also warned that proving an interdependency relationship can be a difficult task. Adult next of kin who are helping out their parents during their life must make sure they keep track of expenses, as verification will be needed to prove interdependency so to avoid a hefty tax bill.

"Interdependency and tax are interesting issues. We recently had a case where two adult children were caring for their father. Unfortunately, the two children didn't keep the receipts, so the ATO didn't proceed with their interdependency application as there was no proof of this type of relationship. While they received the funds, they still had to pay tax on the proceeds," Mr Holloway explained.

Finally, the tax expert warned that superannuation is not automatically included in a deceased's will and people need to give specific instructions for this to occur. Otherwise the super fund's trustees may decide who receives the superannuation payout.

MEDIA INQUIRIES

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