Leave your super to your estate

Structuring the inheritance can help kids dodge reaper's duties

Randall Stout

You may be surprised that being a Certified Financial Planner involves 40 hours of professional development a year. I am pleased that financial planners will now have to hold a related finance degree to be licensed and provide advice.

After 17 years of providing advice, the lessons never end. Here is one lesson I learnt this year.

Most of you will know that superannuation left to your spouse, same-sex couple and children under-18 is tax free. This can include the life insurance owned within your super fund.

For example, if I pass away, my wife and children (all under 18) are well provided for due to our super balance and large insurance policy.

What I didn't really understand was the opportunity to make a small change and possibly save 2 per cent tax. Many of you may have lost a spouse, separated or have a blended family. In such cases, you may wish to nominate your children older than 18 years of age to receive your superannuation and any attached life insurance.

This is where it can get complex. There are two elements to super:

1. Concessional contributions: the super contribution from your employer, salary-sacrificed and personal contributions to help with your tax. These form your tax components.

2. Non-concessional contributions: Any after-tax contribution (lump sum from an inheritance, property sale or downsizing the family home). These form your tax-free components.

Let's take the scenario of a divorced father who has $500,000 in super. He has two kids aged 25 and 27. He nominates the two kids to receive the super through a binding death benefit nomination.

Of the $500,000, $100,000 is non-concessional contribution and tax free and $400,000 is from concessional contributions from his employer and personal super contributions.

The $400,000 gets taxed at 17 per cent (including the 2 per cent Medicare levy). This gives a net result of $432,000. It seems super death duties are alive and well.

Here's a tip that will save you (or rather, your kids) money: get a proper will in place and change the super fund to be paid to your legal personal representative (the estate). This means no Medicare levy is paid because the super death benefit hasn't been paid to an individual.

The $400,000 taxable component is taxed at 15 per cent — for a net result of $440,000.

The moral of the story is good advice, in this example, can save you $8000.

The only way to avoid the death benefit tax is if your superannuation benefits are paid to your adult children and withdraw all the benefits predeath, as a tax-free lump sum.

If only we knew the date of our death.

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