

CASE STUDY

QUARANTINING THE TAXABLE AND TAX FREE COMPONENTS - RETIREMENT PLANNING

Introduction

Your superannuation account is a defined accumulation scheme for the sole purpose of funding an individual's retirement. Funds remain invested within the entity of a superannuation plan which has conditions as to when funds can be released. As a rule of thumb, superannuation can be accessed by the time an individual turns 65.

There is an incentive to structure funds inside super for retirement as an individual is allowed to have \$1.9 million in an 'Account Based Pension' where there is zero Capital Gains tax applied to investments and zero tax upon earnings. The tradeoff is that funds invested in an ABP must draw a minimum pension payment on a yearly basis.

When considering a retirement plan and establishing an ABP, it is important to explore the methods of contributing to a superannuation account via Concessional and Non-Concessional Contributions.

Financial Snapshot

Mary (65) is working as an office manager in Brisbane and is starting to take an interest in planning for her retirement. She has been contributing up to her concessional contributions cap every year since she sold an investment property. She has subsequently inherited \$500,000 in cash who has recently passed away. She would like to know if it is possible to retire within the next 12-months time as per her financial situation below.

Income	Assets	Super Contributions
Mary Salary: \$120,000	Net Proceeds of Property Sale: \$250,000	FY 2024/25: SG = \$13,800
Expenses: \$70,000	Cash Inheritance: \$500,000	
Saving: \$25,000	Superannuation Account: \$720,000	Taxable Component: 100%

Understanding Mary's Financial Needs

Mary wanted primarily wanted to know if she had sufficient income to fund her retirement and whether her assets will 'go the distance'. She also want to know how to minimize the amount of tax she could pay as part of her overall retirement objectives.

Financial Objectives

To fund her retirement from 66 on an income of \$70,000 per annum until her life expectancy + 5 years.

Strategy Consideration: Contributing To Superannuation, Limits and Estate Planning Considerations

- ◆ The Concessional Contribution cap is the annual limit on pre-tax contributions to superannuation, including employer contributions, salary sacrifice, and personal deductible contributions, currently set at \$30,000 in Australia for the 2024-25 financial year. All contributions are taxed at 15% upon entry.
- ◆ The Non-Concessional Contribution Cap is the annual limit of 'after-tax' contributions to superannuation. An individual is eligible to contribute \$120,000 as of the 24/25 Financial Year.
- ◆ As part of the rules governing Non-Concessional Contributions, an individual is eligible to utilize the bring-forward rule which states that you can contribute 3 years of contributions 'in one go' which is for the sum of \$360,000.
- ◆ As part of the contributions to your superannuation, there are also estate planning/tax consequences to 'non-tax dependents' (i.e. adult children) should they eventually inherit the account balance.

From the 'pre-tax' or concessional contributions - this forms part of the 'taxable component' of the accounts balance, and, in the event of an adult child inheriting the account, a 15% tax plus Medicare levy is paid.

There is zero tax treatment applied to the tax-free component.

Quarantining The Contributions and Strategy Outcomes

There are several factors to consider with such a strategy, including:

- Making a \$120,000 Non-Concessional Contribution for the FY24/25 followed by utilizing the Bring-Forward Contribution of \$360,000 for FY 25/26.
- The non-concessional contributions were contributed in a separate (2nd) superannuation account so that the taxable and tax-free components were quarantined. This was to ensure that if there were any thoughts of gifting or lump sum expenses (i.e. home renovations, new car or early inheritance/gift), this could be withdrawn from the superannuation account to reduce the amount of tax payable in the event of a passing and transfer to a non-tax dependent.

Age	Super A	Minimum Withdrawal	Super B	Minimum Withdrawal
65	\$720,000	\$36,000	\$480,000	\$24,000
66	\$735,840	\$36,792	\$490,560	\$24,528
67	\$752,028	\$37,601	\$501,352	\$25,068
68	\$768,573	\$38,429	\$512,382	\$25,619
69	\$785,482	\$39,274	\$523,654	\$26,183
70	\$802,762	\$40,138	\$535,175	\$26,759
75	\$895,038	\$53,702	\$596,692	\$35,802
80	\$950,045	\$66,503	\$633,363	\$44,335
90	\$876,274	\$96,390	\$584,183	\$64,260

Further Considerations

As part of the advice provide to Mary she also considered the other areas of financial advice which were:

- Re-Contribution Strategy
- Downsizer Contributions
- Transfer Balance Cap and Total Super Balance

Learning More

Want to talk about your personal situation with one of our advisors?

Call, email or visit our website using the details below for a **free no-obligation 30-min catch-up** with one of our experts.

Contact Us

+61 2 8302 3620

wealthadvisors@rivkin.com.au

www.rivkinwealthadvisors.com.au

Suite 8 "The Elan", 1 Kings Cross Road, Rushcutters Bay,
NSW 2011, Australia

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