eureka report

$3 Million in Super? Time to Get Planning

Theo Marinis examines various strategies to get ahead of the tax sledge planned on those with more than $3 million in super.

By Theo Marinis

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Having more than $3 million in retirement savings might be a great problem to have, but the thought of the federal government’s plan to ratchet up the tax traction on balances above that level is a good reason to assess your options.

If you have a looming Superannuation balance problem from 1 July 2025, now is the ideal time to consider strategies to mitigate the increased tax impact.

My recent advice to a client with $3.5 million in super and pension funds, and single, was to first consider upgrading his home. Withdrawing funds from long term savings to improve the value of this capital gains tax-free dwelling would still leave his estate with a healthy and appreciating asset, without breaching the proposed new $3 million limit.

For those living in a regional area, and subject to availability, there can also be an opportunity to purchase surrounding land up to the CGT-exempt limit of 2 hectares, with the same benefit. (In this case, my client’s property already exceeded this limit, so this additional opportunity did not apply to his situation).

Donating Funds

The next consideration was his ability to donate funds to the superannuation accounts of his children (with their approval). This strategy could be achieved by making non-concessional contributions of $110,000 in this financial year, with the potential to make additional contributions up to the NCC cap in 2024 and in subsequent years.

Alternatively, provided it did not trigger an excess contribution situation or, in turn a ‘total super balance’ issue for his children, he could contribute up to $440,000 over a short period (e.g. $110,000 in June 2025 followed by $330,000 on 1 July 2025 when the new rule is expected to come into effect).

We discussed the possibility of paying the $500,000 in excess super to his existing investment company. The payment could be funded via a loan to the company, with the loan funds repaid to him tax free.

Company Tax

However, the company would be subject to 30 per cent company tax on the earnings – and his beneficiaries (his children) could, on taking control of the company, use a dividend streaming strategy to effectively get the money out. But if they do this too quickly or wind up the company straight away, there may be additional tax of 17 per cent to be paid (over and above the 30 per cent company tax rate) – which would mean that the funds might just as well been left in super.

Investing in an Insurance Bond was also discussed. As I have expanded on Insurance Bonds in the past (including "Cashing in on Insurance Bonds" back in June 2017), I will just say that Insurance Bonds are investment accounts held outside of super. They largely fell out of favour when superannuation became the simplest and most cost-effective universal investment savings account.

Dodging Death Tax

The key points are that funds held in an insurance bond are taxed at 30 per cent, but this is the maximum tax rate; it compares well to a tax rate of 47 per cent on investments outside of super, and therefore, remains a useful strategy. If the investment is held for a period of 10 years, the accumulated funds can be withdrawn tax free – and, Insurance Bonds do not attract the 17 per cent Death Benefits Tax.

The idea of eliminating up to $255,000 of Death Benefits Tax on a taxable component of $1.5 million within his current super balance was even more of a hit with my client than staying within the proposed $3 million cap!

These approaches sound very straightforward; but they are not. It can be a little bit like doing 'surgery on yourself' – theoretically possible, but not to be recommended.

Speak to a competent financial planner before making any major financial decisions so that you understand the full consequences in your unique situation.

The positive is that if you are likely to be affected by this change, you have time to get planning; make sure you re-position your finances to get the best possible outcome for you and your estate.

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