

Midwinter’s Recontribution Strategy – Step-By-Step Guide

A recontribution strategy involves taking a lump sum out of your superannuation, paying any superannuation lump sum tax, and then “re-contributing” the net amount back to either the same super fund or another super fund.

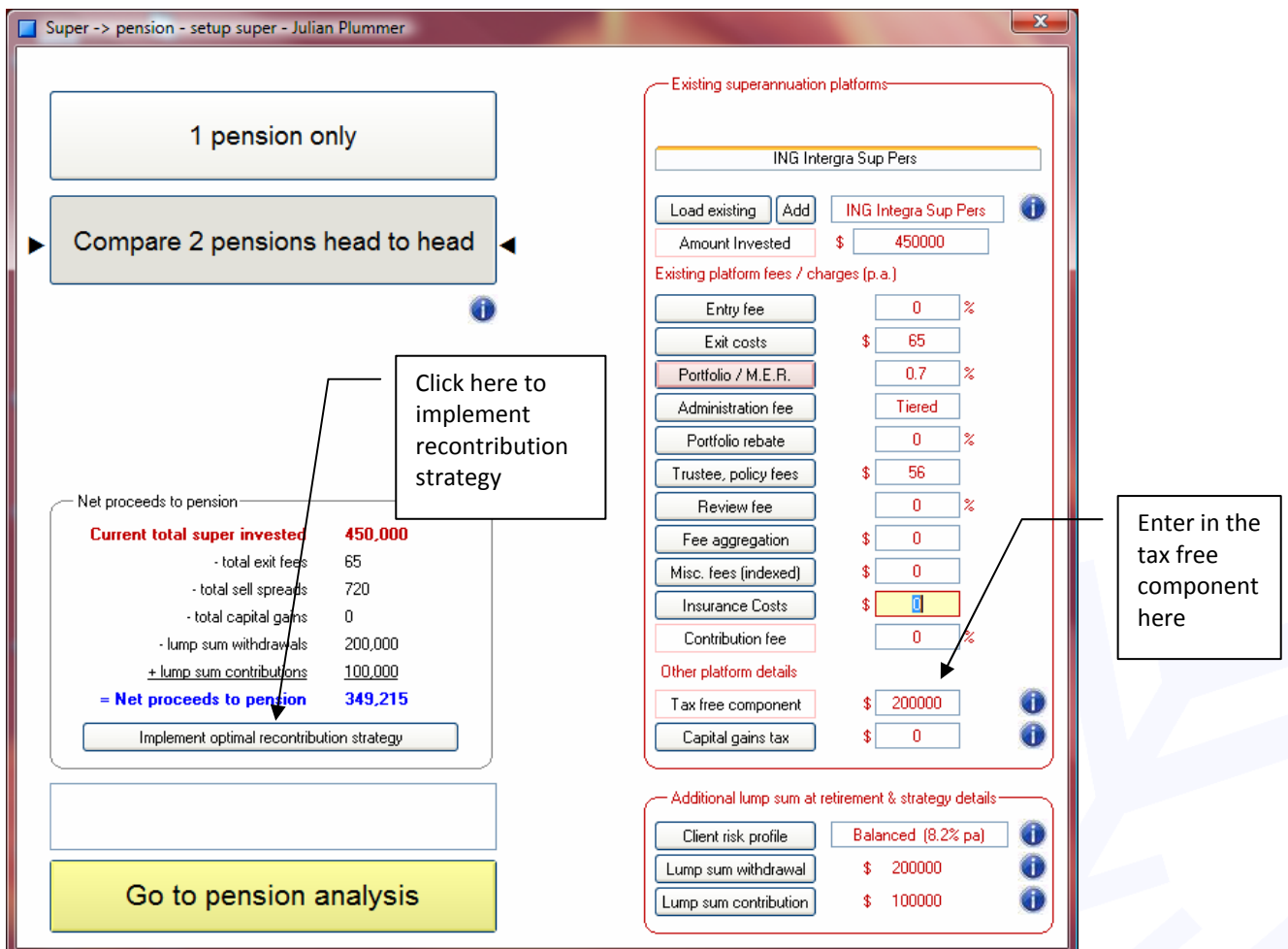
The effect of a recontribution strategy is to increase the amount of untaxed benefits relative to the amount of taxed benefits within your superannuation fund.

Midwinter’s recontribution strategy can be very easily implemented using *Reasonable Basis*.

Recontribution strategy with one existing superannuation platform

Step 1 – Enter in existing superannuation platform details

Here we have a client with \$450k invested in the ING Integra Superannuation Fund. The tax free component is \$200k. The client is currently 59 years of age.



1 pension only

Compare 2 pensions head to head

Click here to implement recontribution strategy

Net proceeds to pension

Current total super invested	450,000
- total exit fees	65
- total sell spreads	720
- total capital gains	0
- lump sum withdrawals	200,000
+ lump sum contributions	100,000
= Net proceeds to pension	349,215

Implement optimal recontribution strategy

Go to pension analysis

Existing superannuation platforms

ING Integra Sup Pers

Load existing Add ING Integra Sup Pers

Amount Invested \$ 450000

Existing platform fees / charges (p.a.)

Entry fee	0 %
Exit costs	\$ 65
Portfolio / M.E.R.	0.7 %
Administration fee	Tiered
Portfolio rebate	0 %
Trustee, policy fees	\$ 56
Review fee	0 %
Fee aggregation	\$ 0
Misc. fees (indexed)	\$ 0
Insurance Costs	\$ 0
Contribution fee	0 %

Other platform details

Tax free component	\$ 200000
Capital gains tax	\$ 0

Additional lump sum at retirement & strategy details

Client risk profile	Balanced (8.2% pa)
Lump sum withdrawal	\$ 200000
Lump sum contribution	\$ 100000

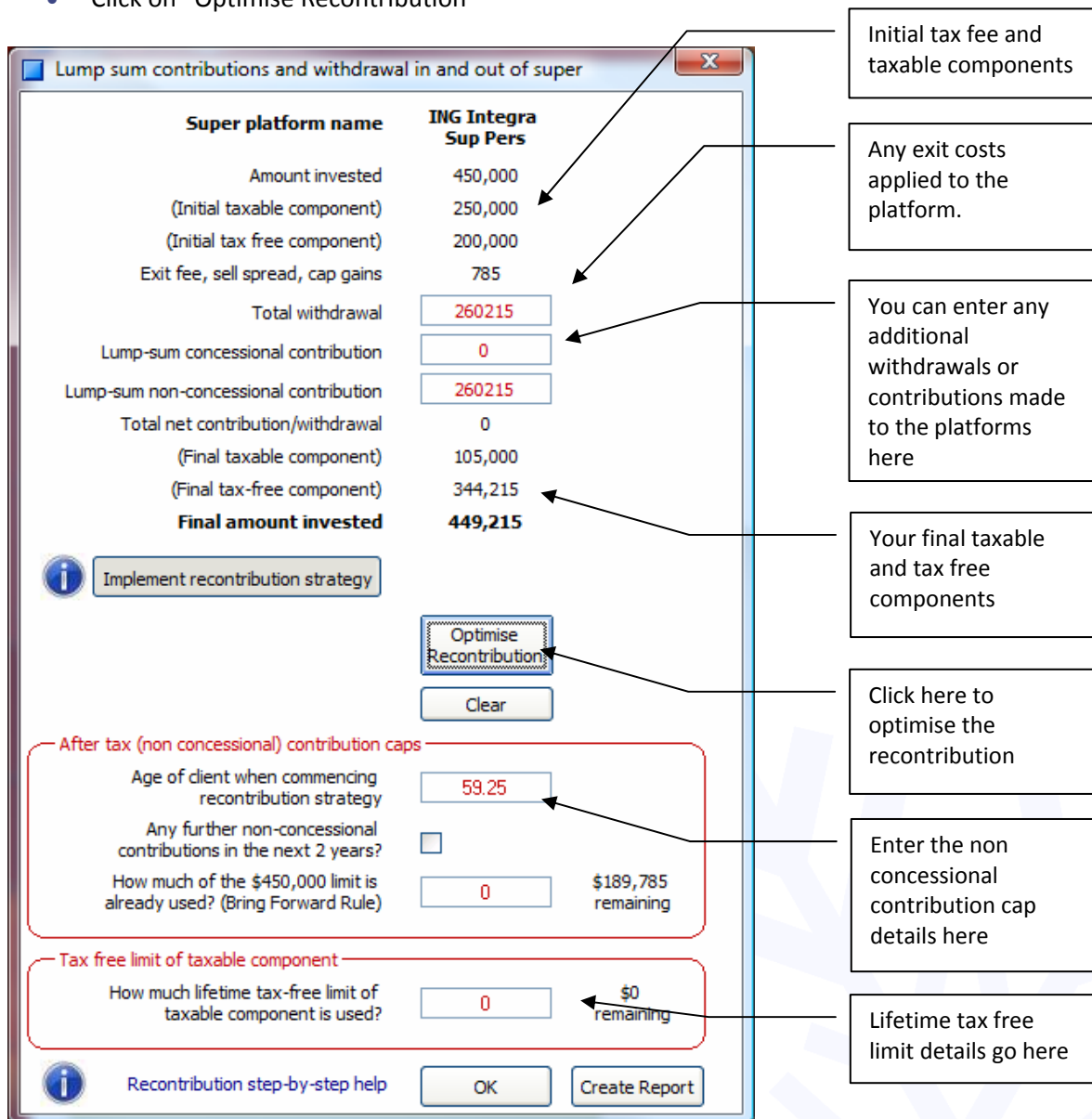
Enter in the tax free component here

The tax free component usually equates to undeducted contributions plus any super started prior to 1 July 1983. In the normal course of events, any other contributions or fund earnings will make up the taxable component.

You recommend a retribution strategy to increase the amount of untaxed component within your super and decrease the amount of taxed component for estate planning purposes. In the event of death non-dependant beneficiaries receive untaxed benefits tax-free, but will be taxed at 16.5% on any taxed benefit. **So we will attempt to push the tax free amount as high as possible.**

Step 2 – Navigate to the retribution strategy screen

- Click on the “Implement optimal retribution strategy” button to navigate your way to the retribution screen,
- Click on “Implement retribution strategy” - This will expand the screen so it looks like below,
- Click on “Optimise Retribution”



Lump sum contributions and withdrawal in and out of super

Super platform name	ING Integra Sup Pers
Amount invested	450,000
(Initial taxable component)	250,000
(Initial tax free component)	200,000
Exit fee, sell spread, cap gains	785
Total withdrawal	260215
Lump-sum concessional contribution	0
Lump-sum non-concessional contribution	260215
Total net contribution/withdrawal	0
(Final taxable component)	105,000
(Final tax-free component)	344,215
Final amount invested	449,215

Buttons:

After tax (non concessional) contribution caps

Age of client when commencing retribution strategy	59.25	
Any further non-concessional contributions in the next 2 years?	<input type="checkbox"/>	
How much of the \$450,000 limit is already used? (Bring Forward Rule)	0	\$189,785 remaining

Tax free limit of taxable component

How much lifetime tax-free limit of taxable component is used?	0	\$0 remaining
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Buttons:

Callouts:

- Initial tax fee and taxable components
- Any exit costs applied to the platform.
- You can enter any additional withdrawals or contributions made to the platforms here
- Your final taxable and tax free components
- Click here to optimise the retribution
- Enter the non concessional contribution cap details here
- Lifetime tax free limit details go here

Midwinter’s Reasonable Basis has just implemented the optimal retribution strategy for this client.

Step 3 – Understanding the results

When clicking on the “Optimise Recontribution” button, *Reasonable Basis* will automatically determine the maximum amount of taxable component the client can withdraw without paying any tax. As shown in the table below, the tax rate of taxable component of the lump sum withdrawal is age dependent.

Lump sum component	Tax treatment for lump sum withdrawals
Untaxed Component	Tax free
Taxed component	<ul style="list-style-type: none"> • If under age 55, taxed at 21.5% • If aged 55 to 59, first \$145,000 tax-free and remainder taxed at 16.5% • If aged 60 or over, tax-free

As the client is 59, he is entitled to have the first \$145,000 of the taxable component withdrawn tax free.

Every withdrawal from superannuation must contain a proportional amount of both components, with the proportion determined at the time of withdrawal.

- Approx 56% of the client’s portfolio is taxable component (\$250k/\$450k).
- This means that only 44% of every withdrawal will consist of tax free component.
- For the client to withdraw \$145k of taxable component, the client must withdraw a total of \$260k (i.e. $\$260k \times 56\% = \$145k$)
- Please note that the \$785 withdrawn as exit free also contains a taxable component.

Contributing the lump sum back into super converts the taxed component into an untaxed component by “recontributing” it as a post-tax (non-concessional) contribution.

One thing to keep in mind is that there is a cap on non-concessional contributions that can be paid into super.

This cap is \$150,000 p.a. (or \$450,000 over three years if you are under age 65).

Midwinter’s *Reasonable Basis* will automatically take these non-concessional contributions caps into account when determining the optimal recontribution levels.

In this example, the client has around \$198k left to go until he hits his non-concessional contributions caps.

So as a result of running this recontribution strategy the client’s taxable component will decrease from \$250k to \$105k.

In the event of death non-dependant beneficiaries receive untaxed benefits tax-free, benefits will increase by \$24k as a result of the recontribution strategy.

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To access your free trial of Midwinter's *Reasonable Basis* please click on this link – [Reasonable Basis Free Trial](#) - and call **1300 882 938** for your access code.

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Justifying
your advice just
got a whole lot
easier with...

 *reasonable basis*