

Update: 11 April 2007 Super changes - A new death duty?



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Summary

Recent changes to superannuation herald a shift to a simplified regime offering unparalleled benefits for “baby boomers” on the cusp of retirement.

The current “crop” of retirees has greater wealth than preceding generations, and the next decade or so will see a major transfer of that wealth to their families.

What has changed?

Previously, there were limits on the amount of super contributions, strict requirements to “cash out” those benefits in retirement, and some adverse tax consequences if benefits were received by a “working retiree”.

All that is changed - for the next couple of months, contributions will be measured in millions of dollars and even after 1 July 2007 large sums of money will continue to be contributed.

From that date persons over 60 can withdraw benefits tax free and importantly, there will be no requirement to “cash out” superannuation.

The result?

Retirees will have large amounts of money in superannuation, and will be tempted to leave those funds in the superannuation environment for as long as possible.

So what happens on death?

Under the old system, amounts held in a superannuation fund at death would probably be relatively minor and taxation less likely to be a problem.

Under the new, more liberal regime, almost certainly there will be relatively large sums of superannuation held by many people at the time of their death.

So how do we fix it?

Careful estate and financial planning will ensure benefits are passed to eligible beneficiaries with minimal or no tax. For example, a recontributions strategy could be used early in retirement. Failure to plan may mean a 15% “death duty”.

It is critical not to overlook, or disregard, the importance of superannuation in the course of estate planning – will makers do so at their own peril!

Important fine print

This update is for general information only. It is not a complete guide to the area of law. Competent advice should be obtained before taking any action.

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