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Recontribution strategy and opportunities

There are many benefits and advice considerations when withdrawing and recontributing into super.

Background

If a full condition of release is met, there may be benefits to withdrawing a lump sum from unrestricted non-preserved (URNP) amounts in super and recontributing as a non-concessional contribution (NCC) back into the member's super fund (same or separate fund) or their spouse's super fund.

A recontribution strategy increases the tax-free component of the super fund and may have a range of benefits including:

- reducing tax on:
  - taxable income stream payments,
  - lump sum death benefits paid to non-tax dependants, or
  - death benefit pensions paid to tax dependants where the deceased and beneficiary are < 60.
- managing super balances between couples, which can assist with:
  - maximising amounts in concessionally taxed retirement phase pensions
  - managing total super balances (TSB) to preserve contribution eligibility, or
  - maximising social security benefits if a spouse is below Age Pension age.
- streamlining management of death benefits by recontributing into their own super interest.

Contents

Advice opportunities

Who may be suitable clients?

Broadly, the recontribution strategy may be suitable for individuals who are under 75 (unless eligible to use the downsizer contribution) with access to their super and eligible to contribute. The recontribution strategy creates value and the opportunity to facilitate new advice conversations with retirees and pre-retirees, including considering whether to:

1. Make regular recontributions in retirement, including making NCCs under the bring forward rules just before age 75, to maximise the tax-free component in super for the benefit of adult children and the estate.
2. Equalise super between spouses in retirement. A spouse may consider withdrawing from their own benefits and contributing to their spouse's super account using NCCs and the bring forward rule. This approach assists in managing the transfer balance cap (TBC) and TSB to maximise contributions and retirement phase pensions.
3. Make NCCs in retirement in specific circumstances, such as receiving an inheritance or transferring a share portfolio into super to simplify a retiree client's financial situation by consolidating personally held investments into super.
4. Make downsizer contributions for empty nesters from age 55. Downsizer contributions are limited to $300,000 per spouse (up to the proceeds received) and aren't included under the NCC cap.
5. Commence a retirement phase income stream for those under age 60 who meet a condition of release.[1]

What is the recontribution strategy?

A recontribution strategy aims to maximise the tax free component of a superannuation income stream and/or superannuation death benefit.

To achieve this, the strategy focuses on the tax-effective withdrawal of taxable components and contributing these benefits back into superannuation as an NCC (or another type of contribution, such as downsizer) that forms part of the tax fee component.

Key considerations

Before contemplating the recontribution strategy, check the individual's eligibility to withdraw their super benefits and their ability to contribute to superannuation (ie recontribution).

The table on the following page summarise some key considerations.

[1] Refer to our adviser articles on **Planning for terminally ill clients** and **Providing advice to clients who are permanently incapacitated**.

Issue	Considerations
Access to super	▪ Are the benefits unrestricted non-preserved? ▪ If benefits are preserved or restricted non-preserved, can a full condition of release be satisfied? ▪ Does the trust deed of the super fund restrict access? If yes, can the benefits be rolled over to another fund under the portability rules to overcome this restriction? ▪ Refer to our **Guide to accessing super - conditions of release** for more information on the common conditions of release with nil cashing restrictions.
Tax implications	▪ Are there any tax implications for the withdrawal? This may apply if the client is under age 60 (eg permanently incapacitated) and 60 or over receiving an untaxed (taxed) component
Eligibility to contribute	▪ Can a contribution be made? ▪ What's the client's age? ▪ What's the client's TSB? ▪ What NCCs has the client made in the current and previous two financial years? ▪ Is the client currently in a bring forward period?
Access to recontribution	The contribution (recontribution) may be preserved. Can a condition of release be satisfied in respect of the new contribution, including the commencement of a transition to retirement income stream (where necessary)?
Contribution caps	The recontribution counts towards the client's NCC cap. Would the client prefer to use their NCC cap with monies already outside of super to boost overall super savings?
Consider impact on future contribution opportunities	▪ Does the client want to make future contributions that depend on their TSB? ▪ Client circumstances may change on receiving an inheritance, termination payments or sale proceeds from an investment asset. ▪ Recontribution may impact their ability to make additional contributions in future years when new funds are available. ▪ Refer to our **TSB impact on contribution eligibility** article for more information.

Implementing the recontribution strategy

Advisers should be aware of the following issues to implement a streamlined and effective recontribution strategy.

1. Ensure withdrawals and recontributions aren't processed as journal entry only[2]

For an effective withdrawal, the benefit must leave the super system, be paid in favour of the client and they have control over the funds. This means it can't be done via a journal entry. If this doesn't occur, the ATO can deem the withdrawal and recontribution as never having occurred, which means no change to the taxable component in this client's interest.

The super and tax laws permit lump sum withdrawals and voluntary contributions to be made in cash and via an in-specie transfer of assets[3]. This means the recontribution strategy can be done by transferring investment assets out of and back into the super fund. Whether the super fund can do this depends on the type of super product the client has invested in, and whether the fund can process in-specie transfers.

[2] ATO ID 2015/23
[3] SIS regulation 6.01 definition of *lump sum* and Tax Ruling 2010/01: para 10

In practice, this means:

- Cash withdrawals should be paid to the client's personal bank account (or joint account) and then transferred back from that bank account into super as a contribution.
- Cash withdrawals can be made to a non-super investment account in the name of the client *if the product provider offers this functionality*. The amount is then transferred back into the super account as a contribution. Clients must complete an application form for the non-super investment account and then cancel out under the 14-day free look period.
- In-specie withdrawals from a super/pension wrap account can transfer out of the super fund and into an Investor Directed Portfolio Service (IDPS) account in the client's name (or in joint names) *if the wrap platform offers this functionality*. Clients must open an IDPS account via an application, even though the IDPS account may only be open for a short time and the investments are transferred in and out of the account on the same day. It doesn't matter that the investment assets are in the IDPS account for only a short period of time (Pitts v FCT (2017) AATA 685).
- Similar rules apply to in-specie transfers out of and back into self-managed super funds (SMSFs). If the SMSF invests via a wrap platform, assets can transfer out of the SMSF's IDPS account into a personal IDPS account on the same platform. If the investments are held directly by the SMSF (not through an IDPS), legal title must clearly transfer to and from the member if the recontribution is to be effective. In-specie transfer of asset can be a complex process and advisers should allow sufficient time for the withdrawals and contributions to be processed.

Advice tip

If the product is a super wrap, investment assets (eg wholesale managed funds) are held by the super trustee directly, and can therefore be transferred out of and back into the super fund on an in-specie basis. It then becomes an issue as to whether the super wrap can process the transfer of assets efficiently in this way, via a corresponding (non-super) IDPS account available through the same wrap platform.

If the super product is a master trust (like an industry fund or retail super master trust), the investment assets are held within a pool, and therefore the withdrawal and recontribution needs to be in cash. Advisers considering the recontribution strategy for clients in master trusts needs to factor in buy/sell spreads and time out of the market.

2. Capital gains tax (CGT) issues on super wrap platforms

CGT may apply in the super fund if the withdrawal is from an accumulation super account. This applies to both a cash withdrawal funded from a sell down of investments in the super fund and to an in-specie transfer of investments to an IDPS account. However, no CGT applies if the withdrawal is from retirement pension phase[4] and this means that many clients can choose to make cash or in-specie withdrawals from their pension accounts.

Where a wrap platform can facilitate, in-specie withdrawals and recontributions should be done on the same day. This ensures the value of the assets won't change while in the IDPS account and there is no personal CGT arising to the client as a result. On transfer back into the super fund, the cost base and the acquisition date of the investment assets is reset.

Care should be taken with a full withdrawal from an SMSF pension. Tax Ruling 2013/5 indicates that on full commutation, the pension ceases before the in-specie lump sum is paid. This may mean CGT may be triggered on investment assets transferred out of the SMSF.

[4] Pensions referred to in this article are retirement-phase account-based pensions, as the strategies discussed assume clients have unpreserved super benefits.

3. Cost of buy/sell spread

If assets are to be sold prior to applying the recontribution strategy, review the impact of any buy/sell spreads that may arise to the superannuation fund and the underlying investments. A buy/sell spread is the difference between the entry unit price and exit unit price of an investment.

In some situations, such as master trusts, this cost must be incurred but it's important to consider and communicate to clients. If possible, the benefit may be withdrawn from options that have no buy/sell spread (eg cash options). However, check with individual providers, as many funds require a minimum amount to be held in cash to support liquidity in the client's account. Consider:

- If rolling over from one fund to another, should the withdrawal be made from the existing fund and the contribution be made into the new fund?
- Withdrawing benefits from investment options that don't incur buy/sell spreads (eg cash options) or assessable capital gains. If the superannuation benefits are being rolled over and the recontribution strategy is applied to the new fund, consider placing the funds to be withdrawn into investment options that won't incur a buy/sell spread.
- If the buy/sell spreads and any resultant taxable capital gain, negate benefits of the strategy.

4. Ensure contributions are correctly classified when first made and accurately reflect source

If a cash contribution is made from a joint bank account (with a spouse), it can be treated as either a personal or spouse contribution into either spouses' super/pension account. If the bank account is individually owned, the contribution can be classified as a personal contribution for that individual or a spouse contribution for their spouse's super. This also applies to cash recontributions from a non-super investment account.

Due to the nature of in-specie contributions, the receiving super trustee is aware of the ownership of the transferred investment asset and expects that the contribution type reflects the source of the contribution. For NCCs, it generally doesn't matter whether the contribution is classified as a personal or a spouse contribution. However, if the client wants to claim a tax deduction for the personal contribution, the IDPS account receiving and transferring the assets should be jointly owned.

Advice tip

It's important to get the contribution and source of funds correct. Large super funds must report contribution data to the ATO in real time, and any changes to this report will require clear evidence. Also, the ATO is increasing compliance monitoring and this is likely to include enhanced scrutiny of transactions, including those in super.

5. Impact of Transfer Balance Cap and Total Super Balance

The TBC is generally not a problem where clients undertake basic recontributions, because amounts withdrawn from pension phase and then recontributed back as a new pension, or as a pension refresh, will generally net off for TBC purposes. This is because the commutation creates a debit against the client's transfer balance account and this generally equals the recontributed amount that is moved back to retirement phase. If additional amounts are contributed, the client's transfer balance account should be investigated.

The TSB on the previous 30 June is an important issue for clients, as it impacts the amount of NCCs that can be recontributed for them under the NCC cap. The thresholds for 2025/26 are:

TSB at prior 30 June 2025	NCC cap in 2025/26
$2.0m +	$0
$1.88m to < $2.0m	$120,000
$1.76m to < $1.88m	$240,000
< $1.76m	$360,000

If the TSB at 30 June prior is equal to or exceeds the cap (currently $2.0m), the client can still withdraw and make a spouse contribution if their spouse's TSB is less than $2.0m. The client must have satisfied a condition of release and the spouse must be eligible to contribute. This approach allows the sharing of super between spouses in retirement and may reduce the client's TSB for the next year.

Advice tip

Don't confuse the TBC with TSB. When a new pension commences, the TBC is calculated net of any earlier commutation/withdrawal from another pension. On the other hand, TSB is a fixed measurement as at 30 June each year and doesn't change until the next 30 June, even if the client makes a withdrawal in between.

6. Impact of tax free/taxable proportions on future withdrawals and recontributions in pension phase

Under the proportioning rule, the tax free and taxable percentage is set at commencement of a pension and affects the components of future withdrawals. This is important in determining whether to recontribute via a pension refresh or to quarantine the recontribution into a separate 100% tax-free component pension.

A separate 100% tax free component pension is more suitable if the client has a large taxable component pension (more than $360,000 in 2025/26) and they expect to do more recontributions in the future. The client can then make withdrawals from the taxable component pension and recontribute to the 100% tax free component pension via a pension refresh.

Other considerations with this strategy include:

- Estate planning. The 100% tax free component pension may have a binding nomination to adult children while the taxable component pension is reversionary to the spouse.
- Clients may drawdown more from the taxable component pension and take minimum payments only from the 100% tax free component pension.
- The product features should be appropriate for a client holding multiple accounts, such as fee aggregation (so the client isn't paying duplicate fees) and aligned pension payments.

Recontribution strategy in action

Maximising tax free component of a superannuation death benefit (estate planning benefits)

Once a client has reached age 60, their superannuation benefits (from a taxed source) are received tax free. The recontribution strategy may be undertaken if the client meets a condition of release and can recontribute the amount withdrawn as an NCC. The ability to access benefits and make NCCs is (subject to any fund rules) summarised below.

Clients who turn 60 – 74 (on 1 July) in a financial year	
Access to benefits	▪ See 'conditions of release' table in Appendix. ▪ From age 65, unrestricted access to super benefits.
Recontribution	No work test applies
Limit on NCCs	$120,000 annual cap or able to invoke 'bring forward' rule and make up to $360,000 (provided they aren't already in a bring forward period). Subject to TSB thresholds. TSB at 30 June of previous financial year determines the NCC cap. To utilise the bring-forward rule, a member must be less than age 75 on 1 July.

Clients who turned 75 in a financial year*	
Access to benefits	Unrestricted access to super benefits.
Recontribution	Ineligible to contribute after 28 days after end of month of client's 75th birthday
Limit on NCCs	▪ On or before 28th day after end of month client turns 75* ▪ $120,000 annual cap or if able to invoke 'bring forward' rule and make up to $360,000 (if they were 74 on 1 July of that financial year and provided they aren't already in a bring forward period). ▪ Subject to TSB thresholds ▪ Following 28th day after end of month client turns 75 – personal contributions (other than downsizer contributions) can no longer be accepted

* Clients who turn 75 in June are only eligible to use the bring-forward up to 30 June of the same financial year. To use the bring-forward a client must be 74 or younger on 1 July of the relevant financial year.

If a recontribution strategy is undertaken, consider isolating that amount in a separate super interest, particularly an income stream. This approach increases the number of accounts a client has but may provide better estate planning opportunities.

Example 1 - Death benefits

Joe age 64, a widower, commenced an account based pension with $100,000 consisting of a taxable component only. Joe dies after 2 years.

The balance of the account based pension is $110,000 and will be paid directly as a lump sum death benefit to his independent, adult daughter. As his daughter isn't a tax dependant, the death benefit is taxed at up to 15% (plus Medicare Levy of 2%) ie $18,700.

If Joe applied the recontribution strategy prior to commencing the income stream, commencing an income stream that is 100% tax free component, the death benefit would consist of 100% tax free component and be paid completely tax free.

If benefits remain in accumulation phase, after the recontribution, the proportions of tax free and taxable components change as investment earnings add to the taxable component.

Example 2 – isolating recontributed amount

Annabelle, age 74, has an account based pension of $800,000 consisting of 100% taxable component. If she dies, her super will be paid to her adult daughter.

On receiving advice, Annabelle commutes $360,000 from her account based pension which is recontributed back to super. This amount is used to commence a second account based pension with 100% tax free component.

Annabelle only draws the minimum from the 100% tax-free account based pension which provides the opportunity to retain capital in this pension. The original account based pension consisting of taxable component has a higher pension drawn and is also accessed if she need additional income or lump sums in a year.

This approach is designed to maximise the amount in the 100% tax-free account based pension and drawing down more heavily on the taxable pension reducing the balance to reduce the amount of tax potentially payable by her daughter.

Combining downsizer contributions with NCCs

Retirees considering selling the family home have an opportunity to make super contributions under both the downsizer rules and the NCC cap**.** For a couple, this can mean up to $660,000 each in 2025/26 can be contributed to super ($300,000 downsizer contribution plus $360,000 NCC). Key tips about downsizer contributions include:

- The home must be owned for at least 10 years by either/both spouses and the contribution must be made within 90 days of the settlement date.
- The downsizer election form must be submitted to the super fund trustee on or before making the contribution. Timing is essential here, as large super funds report contributions to the ATO in real time and if the fund processes the contribution without the election form it will be reported as a personal contribution.
- If the ATO determines that the contribution isn't a downsizer contribution, it will be classified as a personal contribution and assessed under the NCC cap for that year. The contribution can only be 'refunded' and not counted under the cap if it was made after 28 days following the end of the month of their 75th birthday.

For more information about the eligibility rules that apply to Downsizer contributions see our article **Downsizer Contributions**.

Managing the transfer balance cap

In cases where one member of a couple has a superannuation balance approaching or exceeding $2.0m (general TBC for 2025/26), consider a recontribution strategy by cashing out of their super and recontributing into their spouse's account, if eligible. This may allow more of the couple's superannuation to be moved to retirement income streams, which enjoy tax free earnings.

Example

Pranav (65) has $2,360,000 in accumulation phase. He is considering retiring and will commence an account based pension with his accumulation balance. He is married to Geeta (62) who is already retired. She has $200,000 in an existing account based pension.

Pranav can withdraw $360,000 and contribute to Geeta's superannuation account (assuming she isn't in a bring-forward period and has no other super). Pranav can then commence an account based pension with his remaining $2.0m accumulation balance and Geeta can commence an account based pension with the $360,000 contributed to her superannuation account.

The withdrawal from Pranav and contribution to Geeta's superannuation account has ensured that an additional $360,000 could be maintained in a retirement income stream with tax free investment earnings. If the amount remains in Pranav's account, it must remain in accumulation phase where earnings are taxed at a maximum of 15%.

Maximising social security entitlements

An individual who has reached Age Pension age may increase their entitlement by withdrawing a lump sum from super/pension and recontributing the funds to their younger spouse's account who is under Age Pension age.

Super in the accumulation phase isn't means tested while the account holder is less than Age Pension age. You should ensure any social security benefit outweighs costs, including tax on earnings while in accumulation.

Streamlining management of death benefits

For a surviving spouse, the recontribution strategy can also be used to streamline the management of death benefits, which cannot otherwise be consolidated with their own interests. This involves withdrawing all or part of the death benefit and recontributing death benefit proceeds to their own super account to be merged with their existing member benefits.

This approach may be useful where a surviving spouse wants to minimise the number of accounts they have or a commutation is needed due to exceeding their TBC because of the death benefits.

Maximising tax free component of a superannuation income stream if terminally ill or permanently incapacitated under age 60

If a client is terminally ill and both the client and their spouse are aged less than 60, the recontribution strategy may enable the surviving spouse to receive a tax-free pension. This is because the taxable component of a death benefit pension paid to a beneficiary where both the deceased and beneficiary are under age 60, is subject to tax at the beneficiaries MTR less a 15% tax offset on the taxable component.

This strategy involves the terminally ill person cashing out some or all of their tax free super and recontributing the money as an NCC. Under the terminal medical condition of release, the amount withdrawn is tax free regardless of their age and the underlying tax components. You should consider the benefits of recontributing into the spouse's account where accessibility isn't a concern, and the spouse wishes to retain some of the amount in super accumulation.

For clients who have been assessed by the trustee as permanently incapacitated, the taxable component of the lump sum counts towards the client's assessable income but subject to a maximum tax rate of 20% plus Medicare levy (and Medicare levy surcharge where applicable). As the taxable component is included in assessable income, it may affect any Government benefits and offsets the client receives. If significant tax is payable on the taxable component in cases of permanent incapacity under age 60, a recontribution strategy may not be worthwhile.

The amount withdrawn is recontributed as a NCC which forms part of the tax free component of the superannuation interest. If the client commences a superannuation income stream, the tax free component of income stream payments is tax free. Any taxable component of income stream payments is taxed at the client's marginal rate less a 15% tax offset. However, the taxable component of an income stream is only subject to tax until the client reaches age 60. As the potential tax savings represent a short/medium term gain, consider the costs of undertaking the strategy.

Advice tip: Earnings and tax components

If funds are contributed to a new account and a pension is commenced immediately, all future earnings will be included in the tax-free component. The tax components of a pension as a percentage are set at commencement and don't change. This potentially allows any future amount to be paid out tax free.

If the recontributed amount is invested and maintained in a new accumulation fund, any new contributions or growth in the balance will form part of the taxable component.

Does the recontribution strategy pass the Part IVA test?

Whether the recontribution strategy could fall under Part IVA has been around for many years. The ATO previously issued a media release in August 2004 (NAT 04/058) indicating that the general anti-avoidance provision wouldn't apply to the recontribution strategy where a person:

- withdraws their super and recontributes the same or a similar amount back to super, whether to the same fund or a different fund (including a fund for their spouse), or
- makes a large undeducted contribution (non-concessional contribution) to super prior to receiving a withdrawal from that fund.

In the AAT case of *Pitts v FCT (2017)* AATA 685, the ATO argued that a recontribution strategy for estate planning purposes was a valid series of transactions. Therefore, it's unlikely the ATO would reverse this position under Part IVA.

Clarification was sought from the ATO on whether the recontribution strategy for individuals aged 60 or over to minimise the tax on death benefits to non-dependants would trigger the anti-avoidance provisions. In the minutes of the Superannuation Technical Sub-committee held on 5 June 2007, the ATO responded 'that it's unlikely the Commissioner would apply Part IVA to a recontribution arrangement given that a key policy thrust of the simpler super amendments was to provide individuals with greater concessions and more flexibility to manage their superannuation in retirement.'

Always remember that the withdrawal must clearly leave the superannuation system and be paid in favour of the client. The ATO is clear that journal entry withdrawals and recontributions are ineffective.

Advice tip

Advisers should note that, although Part IVA may not be an issue, the ATO can consider whether the strategy and the transactions involved have legal effect. Therefore, it's important to ensure that the withdrawal and recontribution are processed clearly and correctly.

The importance of implementing the strategy correctly

Just like many strategies, the recontribution strategy clearly creates exciting opportunities for advisers and their retiree clients. Advisers should ensure that the processes for clients making withdrawals and contributions are executed cleanly and correctly. Importantly:

- withdrawals must leave the super system and recontributions should be sourced from the client's and/or their spouse's control, and
- downsizer forms must be provided on or before the contribution is received by the super fund.

Not only does careful planning enable value to be delivered to clients, the ability for the ATO to retrospectively unwind the benefit of the strategy is reduced.

Important information and disclaimer

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Appendix

Conditions of release

Condition of release	Description
Reach preservation age (60)and permanently retire	The member has reached age 60. A gainful employment arrangement has ceased and the trustee is reasonably satisfied that the member never intends to return to gainful employment (at least 10 hours per week). The gainful employment arrangement may have ceased prior to age 60.
Cease a gainful employment arrangement on or after age 60	A gainful employment arrangement has ceased on or after reaching age 60. The member's intention in respect of gainful employment in the future isn't an issue. A new condition of release must be met in respect of preserved benefits that accrue after this condition of release has been met.
Age 65	All benefits may be paid to the member.
Permanent incapacity	Physical or mental ill health where the trustee is reasonably satisfied that the member is unlikely to be gainfully employed in an occupation for which the member is reasonably qualified by education, training or experience.
Terminal medical condition	Two medical practitioners (at least one of which is a specialist in the field of the terminal illness) have certified that the member has an illness or injury that is likely to result in death within 24 months.