

Dollars & Sense: How can we minimise tax impacts when we leave our super to our child?

Our financial adviser knows how to get around the death tax lurking in super, while a reader asks whether it's best to make super contributions or invest elsewhere.

By JASON FEATHERBY



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4 min read 5:00am August 14, 2025. Updated 22 hours ago

Welcome to our Dollars & Sense column. While in no way is it formal financial advice, it is a way to stress test your decision-making, to find out potential financial implications before you make your choice, and to discover more about structuring your affairs so that your money works harder for you. Submit your questions to dollarsandsense@theaustralian.com.au.

James Kirby's story, [A double hit from the new tax trap](#), raised the following question for us. We are a married couple, both over 75, with \$1.5m in our SMSF. We own our own home and are debt-free. Our fund is conservative with a heavy cash (term deposit) bias. How can we plan to minimise the tax impact when we leave our superannuation to our daughter?

Peter & Sandra, Malvern, Victoria

This is fast becoming the most-asked question I receive now that the awareness about Australia's "sneaky" death tax is growing. By death tax I am referring to the tax levied on recipients of superannuation money upon death when not a dependent of the deceased. This is currently levied at a rate of 17 per cent on the taxable portion of your super balance.

The good news, Peter and Sandy, is that while you are both still alive, you don't have to worry as super, upon death, passes to a dependent (in this case a spouse) tax-free.

The not-so-good news is that ageism, when it comes to making super contributions in Australia, is alive and well, and you are not able to add anything further to your super once you turn 75. For those reading James Kirby's article who are in a similar

position and are not yet 75, then get some advice on how to implement a [withdrawal/recontribution strategy](#) – believe me it will be well worth it.

For someone your age and in your situation and with a large weighting to term deposits, I would be looking at using the tax-free thresholds we have which, for senior Australians, are quite generous. For self-funded retirees not in receipt of an age pension, you are each allowed to earn about \$22,500 per annum before paying income tax. This means, as a couple, you can earn \$45,000 a year tax-free. At an interest rate of 4 per cent per annum, this means you could invest more than \$1m in cash-based investments and not have to pay tax. Something to consider.

For me, I probably wouldn't overreact at this stage, assuming you are both in good health, but moves will need to be made once you find yourself on your own. At that point it may be worth moving some funds out of super and into your personal name (we currently still have no official death tax in Australia).

Thankfully, most of us don't die suddenly and have a little time to plan before we do, so in the event of serious or terminal illness, it is then time to cash in and ensure all of your funds are in your own name upon death. This will help avoid your daughter having to pay any tax on your hard-earned super money.

Should we add more to our super?

My husband and I are in our late 50s. Our home loan is fully offset, we have adequate cash buffers and savings are going into share investments and super. In terms of super, advice always recommends maxing concessional contributions due to the tax concessions. However, if our income is taxed at 16 per cent (due to FBT concessions in our industries) should we make concessional or non-concessional contributions or invest outside of super? We are already taking advantage of the government co-contribution and the spouse contribution offset.

Angela, Albion Park, NSW

Well done on already accessing the government co-contribution and spouse contribution benefits.

You are right. With an effective personal tax rate of approximately 16 per cent, the typical tax incentive to make concessional (pre-tax) contributions into super is reduced significantly. The benefit of paying 15 per cent contributions tax in super versus your 16 per cent personal rate is minor, making concessional contributions less compelling for immediate tax savings, but it can still provide significant long-term tax benefits.

Superannuation remains attractive for its long-term tax advantages. Investment earnings are taxed at just 15 per cent in the accumulation phase and become tax-free in the pension phase after you turn 60 and have retired. This makes super a highly tax-effective vehicle for generating retirement income and capital growth.

Maintaining your investments outside of super may remain appropriate, particularly for shorter- to medium-term needs or where liquidity is required. Given your low effective tax rate, after-tax returns on non-super investments (especially from franked dividends and capital gains), personal investments can still be tax efficient if the balances, and therefore the added taxable income from these investments, doesn't start to cause you any tax problems.

As you are both in your late 50s, you will soon be able to access super (preservation age is currently 60), so can begin to focus on using more of your current surplus cashflow to make non-concessional contributions rather than investing further in your personal names where both income and capital gains tax are added to your taxable wages and can begin to become an issue.

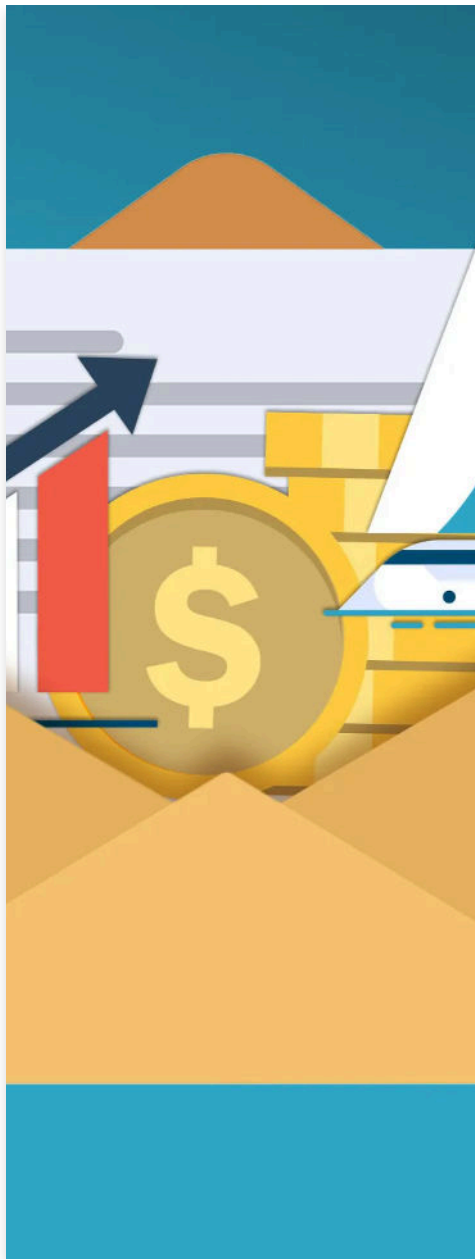
Non-concessional (after-tax) contributions are not subject to the 15 per cent contributions tax and can help increase the tax-free component of your super, improving both retirement flexibility and the tax treatment of any inheritance passed on to your adult kids.

I'd continue to adopt a balanced savings strategy for the period between now and eventual retirement, making sure your taxable income is kept in check – increase your non-concessional contributions as opposed to additional concessional contributions or adding further to your personal investments and continue to hold your existing portfolios outside of super.

Between the ages of 60 and retirement, I'd add as much as possible to super using non- concessional contributions while being mindful of the caps in place, and even get some advice on moving your personal investments into super as well, assuming there is no capital gains tax payable in doing so.

Jason Featherby is co-founder and head of financial advice at Leeuwin Wealth.

The responses provided are general in nature, and while they are prompted by the questions asked, they have been prepared without taking into consideration all relevant circumstances. Before relying on any of the information, please ensure that you consider the appropriateness of the information provided with regard to your objectives, financial situation and needs, and seek independent professional advice.



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