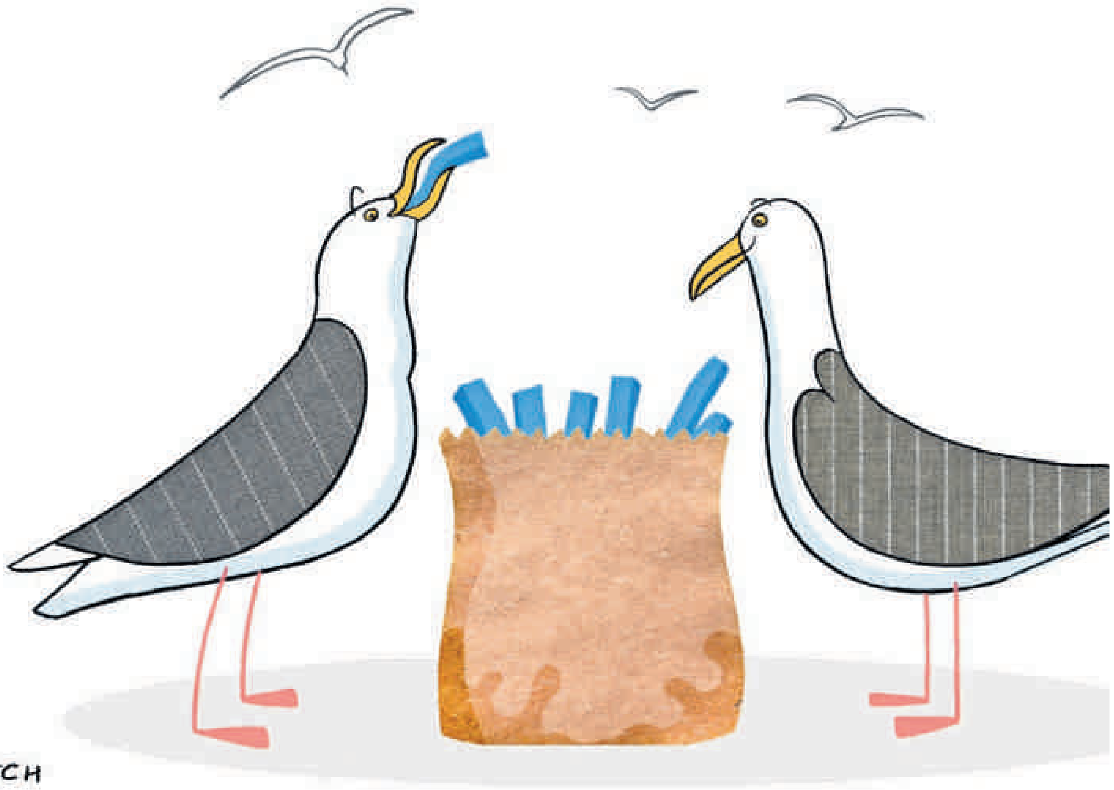
MONEY

I earn $80,000 a year in dividends. Should I reinvest, or add to super?

ASK NOEL

NOEL **WHITTAKER**



I am 58 and have a portfolio of blue-chip shares worth about $1.67 million, producing about $80,000 a year in fully franked dividends. I have owned the shares for 20 years, and they have unrealised capital gains of about $1.3 million. All dividends are re-invested. I expect to retire in two years. My salary is about $130,000 including overtime and penalty rates, and with my dividend income, my taxable income is about $205,000 to $210,000 a year. I salary-sacrifice $20,800 into super each year, with employer contributions of about $11,500, bringing me close to the concessional contribution cap. I also pay Division 293 tax.

My super consists of about $715,000 in a government PSS defined benefit scheme and $805,000 in another account, giving me total super of about $1.52 million. With Labor's capital gains tax changes due to commence on July 1, 2027, I am concerned about the future CGT implications for my share portfolio. Should I continue reinvesting my dividends through DRPs, or would I be better off taking the dividends in cash and making non-concessional contributions to super instead?

There is no doubt the coming changes have introduced a whole new level of complexity for investors with diversified share portfolios. Fortunately, you've held your shares for a long time, so the post-2027 treatment of any capital gains should not be too onerous.

As capital gains are added to your taxable income, it makes sense to defer any major sales until after you retire, when your taxable income will be much lower. Meanwhile, if you have capital losses available, consider using them to offset gains and crystallise some gains before June 30, 2027. I agree you should take future dividends in cash and maximise non-concessional contributions to super. The amount you can contribute will depend on the notional value of your defined benefit entitlement.

I have read on several social media sites that, before passing away, you should remove your children (even adults in their thirties) as direct beneficiaries of your assets. Instead, you should place all your assets, including bank accounts, jewellery and super, into a revocable trust and name your children as beneficiaries of the trust. Supposedly, this allows them to bypass the lengthy probate process and gain immediate access to the assets. Does this also apply to irrevocable trusts and testamentary trusts?

Estate planning solicitor Rachael Rofe tells me the short answer is that this advice is generally incorrect in an Australian context. Much of what circulates on social media is based on US estate planning, where revocable living trusts are commonly used. Australia has a very different legal system.

In Australia, assets already owned by a trust are generally not personally owned by you and therefore do not usually form part of your estate on death. However, transferring all your assets into a trust shortly before death is rarely straightforward.

It can trigger tax and stamp duty consequences, affect asset protection and create practical complications, so it is often inappropriate. Revocable trusts are not commonly used in Australia as an estate-planning vehicle as they are in the United States.

Assets genuinely owned by an irrevocable trust generally do not form part of your estate, but establishing one is a major decision with significant legal and tax implications.

I am 61, retired, and have just sold my investment property. Since retiring, I have withdrawn more than $100,000 from my super. Tax-wise, would it be beneficial to contribute some of the sale proceeds back into super? I haven't made any super contributions since 2020 and my super balance is well under $1 million, so I am wondering whether non-concessional contributions are an option. How much could I contribute without exceeding the limits, and how can I determine the amount that would be most tax-effective?

Since the taxation changes announced in the recent budget, superannuation has become by far the most tax-effective investment vehicle for older Australians. Given you are 61 and retired, you have no problems accessing your super. And because your super balance is well under the $2.1 million threshold, you have considerable flexibility.

You can contribute $32,500 as a tax-deductible concessional contribution, but I doubt you would need to do this unless you have taxable income you wish to reduce. The more appropriate option appears to be non-concessional contributions.

These are limited to $130,000 a year, but you can bring forward three years' worth of contributions and contribute up to $390,000. There is no contributions tax or withdrawal tax on these non-concessional contributions.

My mother recently passed away and my sibling and I inherited her home. She bought the property in 1990 and lived in it as her principal place of residence until 2014. She then moved into my apartment, where she lived with me rent-free for the next 12 years until her death in 2026. She owned no other property during that time but rented out her home after moving out. We understand that if we sell the property, there may be capital gains tax because it was rented.

However, we have also been told that if we do not sell the property within two years of our mother's death, any later sale would attract capital gains tax on the entire ownership period from 1990 until 2026. Is that correct?

No, that is wrong. That section protects the deceased's home from CGT if sold within two years of death. It cannot apply to your mother's circumstances because it was not covered with her main residence exemption at the date of death. Even utilising the six-year rule will not bring you up to her date of death.

The CGT calculation goes back to the time it was first rented, starting with the market value then. As she was not covering another property with her main residence exemption, she can continue to cover that property for six years after it was rented out, so only half of the gain you calculate will be taxable and then half that amount for the 50 per cent CGT discount.

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