TAX TALKS

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87 | When a Member Dies

When a member dies, there is a lot to deal with in the aftermath – including the member's SMSF.

What Happens When a Member Dies

In an SMSF when a member dies, the trustee needs to deal with the deceased member's pension assets. How this works, depends on many factors such as the nature of the assets, whether the assets are segregated and a range of other things.

But one important factor is whether the deceased member is in pension mode at the time of death and whether that pension is a reversionary pension or not.

For more details please listen to our interview with Meg Heffron of Heffron SMSF Solutions. But here are six things we learned.

1) When a member dies, anything that is not a reversionary pension is a death benefit.

2) A death benefit can't move into the receiving member's accumulation account. It either needs to be cashed out or move into pension. You can't leave a death benefit in super unless it is in pension.

3) A reversionary pension will hit the receiving member 's total superannuation balance (TSB) straight away upon death.

4) A reversionary pension doesn't hit the receiving member's transfer balance account until 12 months after death.

5) Non-reversionary pensions as well as accumulation accounts result in a death benefit. And a death benefit can be cashed out or moved into pension. If the later, then it will hit both the TSB and TBA as soon as the pension starts.

6) The TSB is assessed by the 30th June of the previous year so for the remaining rest of the current year it doesn't matter that the TSB has now been hit by the inheritance. It will only affect non-concessional contributions in the financial year following the year the member died.

Example

Here is the example Meg goes through in the interview.

30 June 2018

It is the 30 June 2018 and life is great.

John and Jane are self-funded retirees and receive a pension from their SMSF. They made both pensions reversionary to each other.

Jane has an ABP of $1.2m and used up $1.2m of her transfer balance cap (TBC). John has an ABP of $1.6m and has hit his TBC. He also has $0.4m in accumulation.

So together John and Jane have $2.8m in retirement phase and that is fine since neither of their transfer balance accounts exceed $1.6m. And plenty of money to have a great time together.

31 December 2019

But then comes the 31 December 2018 and tragedy strucks. John dies in a car accident.

Jane (as trustee) has to deal with the accumulation balance as soon as practical. So she cashes out the accumulation balance of $400,000 and then might re-contribute parts of it to start an additional pension.

Jane doesn't need to deal with John's pension yet since it is reversionary. So her transfer balance account is not hit by John's ABP. But her total superannuation balance includes John's TSB as from the date of his death.

The fact that Jane's TSB now exceeds $1.6m doesn't matter though yet, since the TSB is assessed as of 30 June. And as at 30 June 2018 Jane's TSB was still below $1.6m. So Jane can still make non-concessional contributions in 2018/19 even though her TSB went well past $1.6m upon John's death.

30 June 2019

Now Jane's high TSB becomes an issue – not for 2018/19 but going forward from 1 July 2018 onwards. Since Jane's TSB exceeds $1.6m, she no longer can make any non-concessional contributions in 2019/20.

Jane's TBA is unaffected though. Both Jane's and John's ABPs keep ticking along nicely. Nothing has hit Jane's transfer balance account yet.

31 December 2019

The day of reckoning has arrived. John's pension will now hit Jane's TBA at the market value at John's time of death. Jane needs to commute $400,000 (plus the amount of the second pension she started from John's accumulation funds) of her pension to make space for John's pension.

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