NAVARINO WEALTH

CLIENT UPDATE
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The tax your children pay on your super

Australia has no inheritance tax, with one exception nobody mentions. What it costs, and the levers only available while you are alive.

In a nutshell

There is no death tax in Australia in the ordinary sense. But super left to someone who was not a dependant for tax purposes is taxed on the way out.

An adult child who supports themselves is a non-dependant. This catches almost everybody.

The taxable component is taxed at 17 per cent where the fund pays them directly, or 15 per cent where it is paid through your estate. On a $600,000 balance with a typical component split, that is roughly $81,600, payable by your children, not by you.

Several things reduce it. All of them have to be done while you are alive.

Why super is taxed on death at all

Superannuation gets concessional tax treatment while it is doing its job, which is funding your retirement. When it passes instead to someone who was not depending on you, the law treats the concession as having served its purpose and claws part of it back. It is not a penalty and it is not an accident. It is the deliberate price of a lifetime of concessional treatment that ended up benefiting someone else.

The trap: “dependant” means two different things

Under superannuation law, your child of any age is a dependant. Your fund is perfectly entitled to pay them directly, and it will.

Under tax law, a child is only a dependant if they are under 18 or were financially dependent on you. An independent 45-year-old is a dependant for one purpose and not the other.

The practical result is that nothing goes wrong procedurally. The fund pays, the money arrives, no forms bounce back. It is simply that a share of it was deducted on the way past. For tax purposes a death benefits dependant is your spouse or de facto, a former spouse or de facto, a child under 18, a person in an interdependency relationship with you, or anyone else who was financially dependent on you. Everybody else is a non-dependant.

What it actually costs

The tax applies only to the taxable component of your super. The tax-free component, built from personal after-tax contributions, passes without tax no matter who receives it.

Who receives it	Taxed element	Untaxed element
A tax dependant (spouse, child under 18)	Nil	Nil
A non-dependant, paid direct from the fund	17%	32%
A non-dependant, paid via your estate	15%	30%

The direct rates include the 2 per cent Medicare levy, which does not apply to a deceased estate. An untaxed element is uncommon; it arises mainly in some older public sector schemes. Rates current at August 2026.

A worked example. Say you have $600,000 in super and, like many people, about 20 per cent of it is tax-free component. The taxable component is $480,000. Paid directly to your adult children, the tax is 17 per cent of that, or $81,600. Paid through your estate instead, it is 15 per cent, or $72,000. That is a saving of $9,600, but at the cost of exposing the money to anyone with a claim against your will.

What people actually do about it

Strategy	How it works
Recontribution	Withdraw money from super and put it straight back as an after-tax contribution. Generally tax free once you are over 60 and retired, and what goes back in counts as tax-free component. Needs a condition of release, room under your non-concessional cap, and you generally need to be under 75.
Withdrawing before death	Once you are over 60 and retired, lump sums out of super are generally tax free to you, and money already outside super is not a death benefit at all. The obvious difficulty is knowing when.
Leaving it to a spouse first	Tax free on the first death. It usually moves the problem to the second death rather than solving it.
Directing it through the estate	Saves the 2 per cent Medicare levy, but exposes the money to challenges against your will and to creditors.
Checking your nomination is valid	Costs nothing, takes minutes, and is the one most often left undone. A lapsed binding nomination hands the decision back to the trustee.

What this could mean for you

If your super is a large part of your estate: work out the number before assuming it is small. For some families it is a rounding error; for others it is the largest single tax their family will ever pay.

If you are over 60 and retired: you already hold the main lever. A recontribution strategy is only available while you are alive and eligible, and eligibility narrows with age.

If you have not looked at your nomination in a few years: check whether it is binding, whether it has lapsed, and whether the people named are still the people you would name today.

If you have a blended family: the interaction between your nomination, your will and the dependant definitions is where this gets genuinely complicated, and it is worth proper advice rather than a form.

None of this is urgent in the way a deadline is urgent. It is simply that every option here requires you to be alive and eligible, which makes it the kind of thing that is easy to leave and expensive to leave too long.

We are here to help

If super is a significant part of what you will pass on, it is worth working out your own number and seeing which of the levers still apply to you, while they still do.

Book a complimentary chat: https://calendly.com/luke-navarinowealth/initialmeeting

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