FUNDAMENTALLY SPEAKING

A simple explanation of the finance terms we all hear about but don't really understand

Take a closer look at tax hit lurking in your super

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One thing to keep an eye out for when you get your next superannuation statement is the breakdown between your taxable and tax-free components.

They won't immediately jump off the page at you but knowing what they are is critical, especially when you start to think about estate planning for your super fund — in other words, who will inherit your super when you die.

When most of us look at our super balance we only see the one figure, but that balance is actually made up of two components — the taxable and tax-free components.

The tax-free component consists of all the after-tax contributions you have made.

These are generally any non-concessional contributions.

Your taxable component is made up of all your concessional contributions, such as your employer super guarantee payments, salary sacrifice and personal tax-deductible contributions.

Most people make far more concessional contributions over their lifetime than non-concessional, so their taxable component generally dominates their fund. But each component is taxed differently when inherited by the next generation.

Your tax-free component is inherited tax-free by both your spouse and adult children. It's the taxable component that comes with potential tax liabilities. When it's inherited by your spouse, or kids under the age of 18, they receive it tax-free.

However, adult children will have to pay tax of up to 17 per cent, which includes the 2 per cent Medicare levy. Fortunately there are strategies which can significantly reduce this liability. We will discuss some of these next week.

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Illustration: Don Lindsay