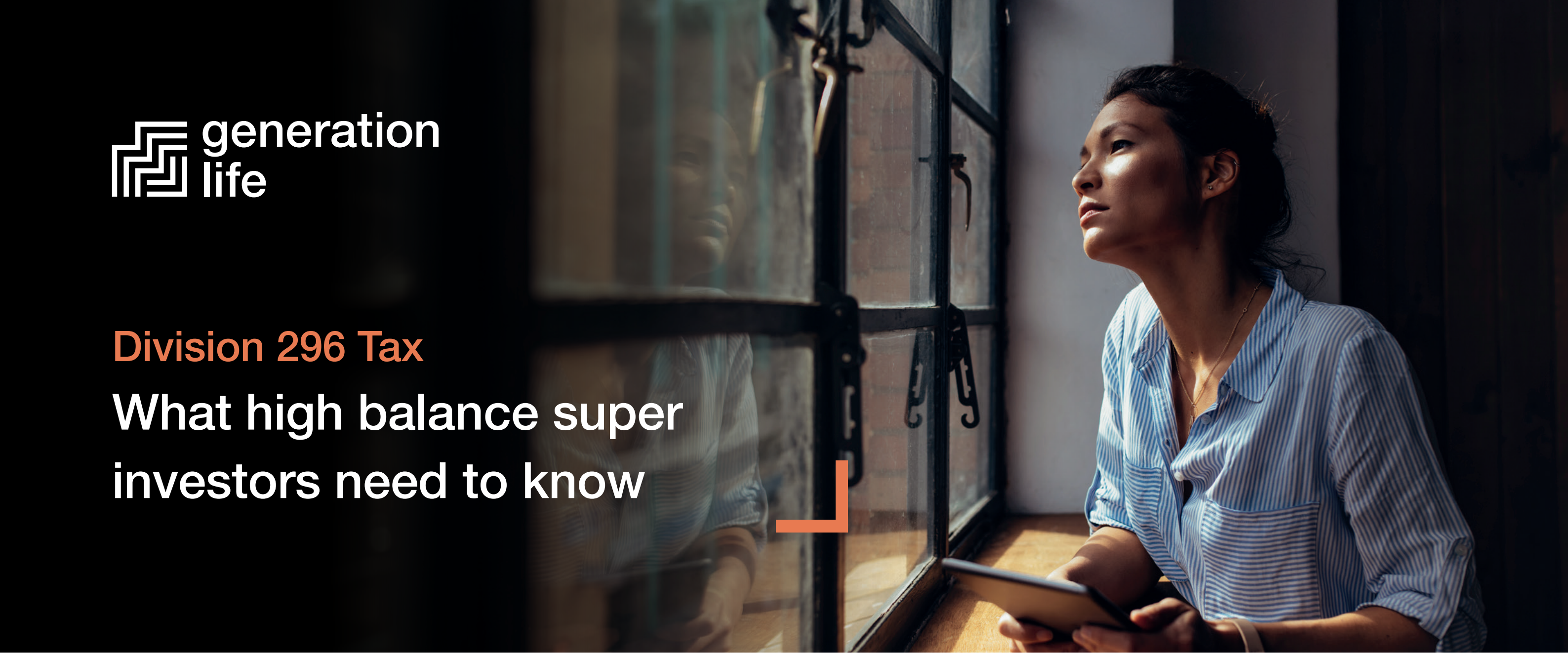


generation life

Division 296 Tax

What high balance super investors need to know

What is Division 296 tax?

Division 296 tax is a new personal tax that reduces the superannuation tax concession on earnings once an individual's Total Superannuation Balance (TSB) exceeds $3 million. An individual's TSB is the aggregate of all their super account balances.[1]

The tax is assessed to and payable by the individual member and not the super fund.[2]

Thresholds & tax rates (per individual)

TSB threshold balance[3]	Additional personal tax rate on earnings relating to balance above TSB threshold	Total tax on those earnings[4]
Over $3 million	15%	30% overall
Over $10 million	25% (i.e. an extra 10% tax above the $3 million tier)	40% overall

Key dates

- Starts 1 July 2026
- Applies to each financial year from 2026-27 onwards
- First assessments due and payable after 30 June 2027
- The tax will be assessable each financial year.

Which accounts are included?

All your super accumulation accounts, pension interests (including reversionary pension interests) held in complying superannuation funds are aggregated. The super funds include:

- industry funds
- retail funds
- employer sponsored and corporate super funds
- small APRA funds
- self-managed super funds

In addition, defined benefit interests, both those in the accumulation phase as well as those in the pension phase, life-time annuities and other annuities purchased with superannuation monies are included (with special TSB valuation rules to be applied by the product providers).

The $3 million TSB threshold is based on an individual's total superannuation holdings across all funds and not on a per account basis. This value includes the proceeds of any insurance payouts left in the super account. A limited number of super accounts are excluded from Division 296 tax.[1]

How Division 296 tax is calculated

1.

In scope test

The ATO will use the higher of your TSB at the start or end of the financial year (with a transitional rule for the 2026-27 financial year) to determine if you have a potential Division 296 tax liability.

2.

Earnings basis for member accounts

Super funds will report realised income and capital gains earnings attributable to in scope members. Broadly, the earnings attributable will be based on the taxable investment income earned less deductible expenses incurred during the year by the super fund for each member's account. This includes income such as dividends, interest, rent and realised capital gains on assets sold during the year.

Income will be grossed up for things such as franking credits, while realised gains on assets held for more than 12 months will receive the capital gains discount in determining the taxable income. A special adjustment applies for pension funds (which are currently tax exempt) the effect of which is to treat the investment income as assessable Division 296 income.

Importantly, Division 296 taxable income does not include unrealised capital gains, while losses during a year can be carried forward. Assessable contributions made into a fund during the year are also excluded when calculating earnings.

Super funds cannot quarantine specific assets to a specific super account to determine earnings - you will be assessed based on your proportionate membership in the whole of the super fund assets.

3.

Proportional method

Only the proportion of the annual earnings attributable to the part of your TSB above the $3m TSB threshold is taxed at Division 296 rates.

4.

Assessment and payment

The ATO will issue a personal Division 296 tax assessmen notice t; you can pay personally or via an ATO release authority from your nominated super account.

Special cost-base adjustment rules for realised capital gains

The Division 296 tax legislation includes transitional cost-base adjustment rules designed to ensure that investment gains accrued before 1 July 2026 are not inappropriately taxed under the new regime. Self managed super fund (SMSF) trustees can elect to utilise transitional arrangements, which must be applied across all assets of the fund.

If this one time election is made by an SMSF trustee:

- The cost base of all CGT assets held at 30 June 2026 is reset to the market value on that date
- This reset of the cost base applies only when calculating Division 296 earnings
- The original cost base remains unchanged for the fund's other tax purposes

Other super funds can elect to reduce their capital gains for Division 296 purposes over a four-year period to 30 June 2030.

How Division 296 will work examples

Total Super Balance peaks at $5 million ($2 million above the $3 million threshold)

Assumptions

TSB at start (1 July 2027): $3.8m
TSB at end (30 June 2028): $5.0m
Total realised earnings for the year: $500k

Division 296 uses the higher of the opening or closing TSB, even if the balance fluctuates during the year.

How the tax is calculated

Step 1 - Proportion above $3m

$2m ÷ $5m = 40%

Step 2 - Earnings attributed to excess balance

40% × $500k earnings = $200,000

Step 3 - Division 296 tax

15% × $200k = $30,000 tax

Result

$30,000
Division 296 tax payable

Effective outcome

Earnings attributable to the portion above $3 million are taxed at a rate of 30% (15% fund tax[5] plus 15% Division 296 tax).

Total Super Balance peaks at $12 million ($2 million above the $10 million threshold)

Assumptions

TSB at start (1 July 2027): $10.5m
TSB at end (30 June 2028): $12.0m
Total realised earnings for the year: $1.2m

How the tax is calculated

Step 1 - Proportion between $3m and $10m

$7m ÷ $12m = 58.33%

58.33% × $1.2m earnings = $700k

15% × $700k = $105,000 tax

Step 2 - Proportion above $10m

$2m ÷ $12m = 16.67%

16.67% × $1.2m earnings = $200k

25% × $200k = $50,000 tax

Result

$155,000
Division 296 tax payable

Effective outcome

Earnings on TSB balances between $3m and $10m taxed at 30% general rate (15% fund tax[5] plus 15% Division 296 tax).

Earnings on TSB balances above $10m taxed at 40% overall (15% fund tax[5] plus 25% Division 296 tax).

Special rule if you pass away during the year

Death does not automatically eliminate Division 296 tax. If your opening TSB exceeded $3 million, a Division 296 tax liability can arise on earnings generated within your superannuation account(s).

A transitional exception applies for the 2026–27 financial year only where If a person dies on or before 30 June 2027, no Division 296 tax applies for that year.

The liability is assessed to the deceased individual and dealt with by the estate; a release authority can be made to allow payment from super if needed.

Where member passes away mid year (TSB of $5m)

Assumptions

TSB at start (1 July 2027): $3.8m
TSB at end (30 June 2028): $5.0m
Total realised earnings for the year: $500k

How the tax is calculated

Step 1 - Proportion above $3m

$2m ÷ $5m = 40%

Step 2 - Earnings attributed to excess balance

40% × $250k earnings = $100,000

Step 3 - Division 296 tax

15% × $100,000 = $15,000 tax

Result

$15,000
Division 296 tax payable

Tax is assessed to the deceased individual.

Liability is typically settled by the estate, with the option to use a release authority from super. Additional super death tax of 15% or 30% plus Medicare levy (where lump sum benefit paid directly to a non-tax dependant beneficiary or estate may also apply on the taxed and untaxed elements of the taxable component of the lump sum death payment.

SMSF trustee considerations

To manage Division 296 tax obligations SMSF trustees will need to consider.

- Having robust, supportable annual valuations for property and other unlisted assets to underpin TSB and earnings attribution
- Determining whether to utilise the cost base adjustments for the fund's assets
- The TSB for Division 296 tax purposes for those with a fund that has a limited recourse borrowing arrangement in place - this will be based on your super fund's balance, not the value of the assets
- Attribution and reporting of realised earnings for in scope members, that follows ATO guidance
- Liquidity planning to accommodate possible ATO release authorities for members' personal tax
- Enhanced governance and workpapers required to substantiate methodology and calculations, including actuarial certification for determining the split of earnings between fund member accounts, and documentation of the cost base re-set election for Division 296 tax purposes

What it means in real terms

Division 296 tax can increase the effective tax rate on a portion of your super earnings and dampen after-tax returns for balances above $3 million where super fund balances are used to fund taxes.

It also increases the importance of liquidity, cashflow, and asset allocation decisions particularly for SMSFs with direct property or unlisted holdings - and adds estate and succession planning complexity when dealing with taxes on the death of a super member.

Action checklist

- [ ] Consider whether a Division 296 cost-base reset is appropriate
- [ ] Track combined superannuation balances as you approach $3m and review long term projections
- [ ] Revisit asset allocation for tax efficiency
- [ ] Stress test liquidity for potential release authorities (particularly in SMSFs)
- [ ] Review contribution strategies and patterns to manage TSB balances
- [ ] Review estate planning needs and preferred outcomes
- [ ] Consider alternative structures for excess balances above the TSB thresholds

Investment bonds – an alternative structure to consider

Just like super, investment bonds are a tax paid investment structure. Investment bonds are issued by life companies, offering tax efficient investment opportunities outside the super system. Investment bonds can provide access to a wide range of professionally managed investment options, with access to funds, and flexible estate planning solutions.

Investment bonds can complement super where Division 296 tax impacts high balance superannuation holdings.

Core advantages of investment bonds vs super (for amounts above the $3m threshold)

No restrictions on beneficiaries

Super law restricts who can be paid directly; many non dependants must be paid via the estate, with possible tax, legal challenges and delay implications. Investment bond death benefits can be paid to any person or legal entity (individuals, companies, trusts, estates or charities).

No contribution caps and flexible access

Unlike super, investment bonds have no contribution caps and no preservation age; you can access funds at any time (noting the 10 year rule for maximising tax benefits).

Portability

Investment bonds provide the ability to transfer ownership of your investment to any person or legal entity at any point in time without a capital gains tax event occurring. Generation Life investment bonds also provide the ability to transfer ownership on death of the owner outside of their estate arrangements, again without a capital gains tax event occurring. Superannuation law limits the ability to transfer ownership in certain situations such as relationship breakdowns, (divorce or separation), spouse contribution splitting (within limits), and conversion to a reversionary pension on death.

Control access to funds

Controlling access to funds post death are limited in super to establishing a reversionary pension. Generation Life investment bonds provide the ability to transfer ownership on death or at a later date but set in place rules for access by the intended recipient, including deferring access and setting up a regular income payment arrangement.

Tax paid compounding and simple reporting

Earnings are taxed within the investment bond at up to 30%, with no personal tax reporting while invested, and withdrawals after 10 years are generally tax free (subject to the 125% contribution rule).

No death benefits tax

When paid to nominated beneficiaries, investment bond proceeds are tax free at death; there is no death benefits tax payable regardless of relationship or status of the recipient, unlike super funds, where the taxable component may be subject to tax at a rate of 15% (taxed element) and up to 30% (untaxed element) on the taxable lump sum component distributed to a non-tax dependant (e.g. an adult child not financially dependant), plus Medicare levy if paid directly to beneficiaries.

Certainty of recipients

You can nominate death benefit beneficiaries or transfer recipients; your instructions will be followed by Generation Life, provided the instructions are valid. The payment or transfer can be undertaken outside of the estate, which can reduce dispute risks. This contrasts with where super trustees may have discretion in determining who receives death benefits—depending on the type of nomination made, and where superannuation death benefits are paid to the estate.

Faster claims

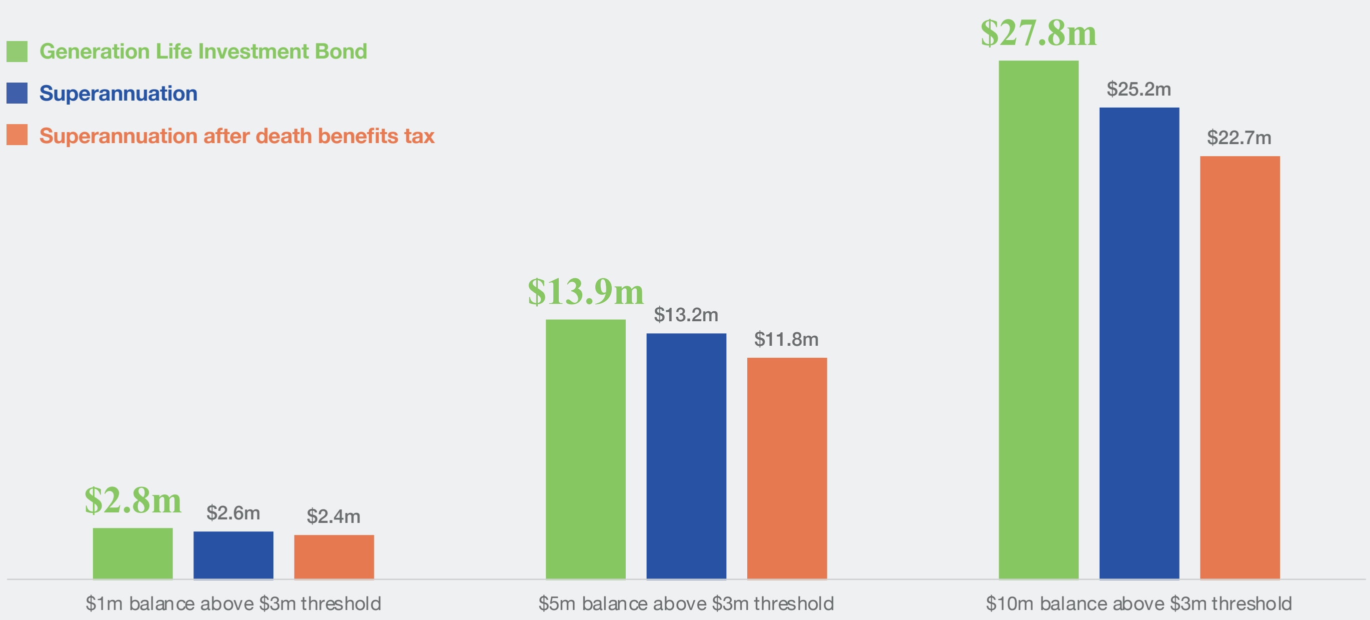
Super death benefit claims can take months to finalise; investigations can extend the claims especially for complex estates or family arrangements), by contrast, death claims are generally processed within seven business days once all completed documentation is received.

Comparison between Super and Investment Bonds

Feature	Superannuation (with Division 296 in scope)	Investment bonds
Earnings taxed	✓ Tax on realised earnings only	✓ Tax on realised earnings only
Earnings tax rate above thresholds	✗ 15%–30% fund tax on the relevant portion of earnings from TSB that equals or is less than $3M TSB threshold 30–40% on the relevant portion of earnings above the TSB thresholds	✓ Maximum 30% internal tax
Death benefits tax rate	✗ 15% or 30% (excluding Medicare levy) may apply to taxable components for non tax dependants on lump sum payments	✓ No death benefits tax
Decision maker on death	✗ Trustee discretion unless nomination is binding	✓ Follow your nomination
Legal challenges	✗ Super death proceeds passed through an estate may be at risk of disputes and legal challenges by aggrieved family members	✓ Can be appropriately structured to sit outside of the estate and reducing the risk of disputes and successful legal challenges
Typical death claims time	✗ Can be months for complex cases	✓ Generally, seven business days
Who can be a beneficiary	✗ Restricted by super law; others via estate	✓ Any person or legal entity directly
Contribution limits & access	✗ Caps and preservation rules	✓ No caps and can access anytime
Contributions tax	✓ Tax concessions on contributions are available up to certain limits	✓ None; however, no tax concessions on contributions are available
Tax monitoring and management	✗ Additional compliance and tracking required by super funds (including self-managed super funds)	✓ No tax management or tracking required by investor
Tax payment	✗ Requires planning to ensure funding available to manage Division 296 tax payments	✓ All tax managed within the structure
Regulatory and prudential oversight	✓ Complying super funds regulated by the Australian Prudential Regulatory Authority[6]	✓ Regulated by the Australian Prudential Regulatory Authority

The after-tax benefit of a Generation Life investment bond

Generation Life investment bonds can provide a tax-effective alternative for excess balances above the Division 296 $3m TSB threshold.[7]



The graph above illustrates the comparative outcomes of a Super accumulation account subject to the Division 296 tax and investment bond account on investment initial amounts in excess of the $3m Division 296 Total Superannuation Balance threshold invested over 15 years without drawdowns.

Who typically benefits from using an investment bond?

At or near $3m in super

Investors approaching or exceeding $3 million in super seeking tax efficient investment outcomes outside super

Estate planning

Investors who want enhanced estate planning certainty, particularly where there are complex family arrangements, and fast access for beneficiaries is needed

Intergenerational wealth

Families planning intergenerational transfers or charitable bequests to any beneficiaries

About Generation Life

At Generation Life, we know that finding the right investment partner is important for your future success. We've been helping Australians since 2004 across all life stages and multiple generations.

Today, we are a pioneer in providing market-leading investment bond and investment-linked lifetime annuity solutions to help secure the financial future of many Australians and their families.

As part of an ASX listed company, we're passionate about innovating and providing the best outcomes for our investors. We believe in putting our investors at the heart of everything we do.

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Outthinking today.

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1. Currently, constitutionally protected funds (for example, funds established for State parliamentarians, public servants and sitting judges) are excluded from Division 296 tax, however, their value will still be included for determining a member's TSB. Personal injury (structured settlement) contribution amounts contributed to super that arise from compensation for personal injury and meet strict legislative conditions (including certification requirements) are generally excluded from Division 296 tax. Recipients of child pension payments are excluded from Division 296 tax. Foreign superannuation interests are not counted as part of your TSB or Division 296 assessable earnings. These general exclusion rules are subject to further details once draft Income Tax Assessment (1997 Act) Amendment (Building a Stronger and Fairer Super System and Other Measures) Regulations 2026 are made.
2. In certain circumstances, individuals can elect to have their Division 296 tax bill paid from the super.
3. Thresholds are indexed to CPI in stepped increments of $150,000 for the $3 million threshold and $500,000 for the $10 million threshold.
4. General rate that combines ordinary fund tax rate of 15% on concessional contributions and investment earnings and Division 296 personal tax rate.
5. Assumes balances above TSB threshold are all in accumulation phase accounts.
6. Plus self-managed super funds regulated by the Australian Tax Office. Some Commonwealth, state or territory public sector schemes are exempt from APRA and ATO regulation.
7. The pre-tax investment returns assume a total return of 7.4% p.a., comprising a total income return of 3.6% p.a. and total growth return of 3.7% p.a., a franking level of 87% and excludes the impact of administration fees for both super and investment bond accounts. The illustration considers the TSB value at the end of each financial year and assumes that the payment of tax happens at the end of the financial year from the super account balance. TSB thresholds are assumed to be indexed assuming an annual CPI rate of 3%. A taxable super component of 60% is assumed, and death benefits are assumed to be paid to non-tax dependants with a death benefit tax rate of 15% plus 2% Medicare levy. The illustration is based on Generation Life's understanding of the Division 296 tax outlined in the Treasury Laws Amendment (Building a Stronger and Fairer Super System) Act 2026 and the Superannuation (Building a Stronger and Fairer Super System) Imposition Act 2026. Actual outcomes may vary depending on investment performances, the assumptions actually occurring, tax regulation, and individual investor circumstances.