


Page Title: (limit 60 characters)	What Division 296 Tax Means For Your Super & Future
Meta Description: (limit 155 characters)	From July 2025, Division 296 will impose a 15% tax on super balances over \$3m. Learn how Division 296 tax affects your future and what to do next.
Target Keyphrase(s) & Search Volume	division 296 tax (720)
Target Pillar Page:	https://www.elliottwatson.com.au/services/superannuation-smsf/
LinkedIn/Facebook Post:	<p>From 1 July 2025, Australians with superannuation balances over \$3 million will face a new 15% tax on a portion of their earnings, including unrealised gains. This could drastically impact your retirement savings over time. At Watson Wealth, we're breaking down the potential consequences and what you need to know to protect your future.</p> <p> Learn more about how Division 296 could affect your super and the steps to take now.</p>
Link to Live Blog:	https://www.elliottwatson.com.au/the-great-super-squeeze-what-division-296-means-for-your-super-and-your-future/
Blog Plan:	Here

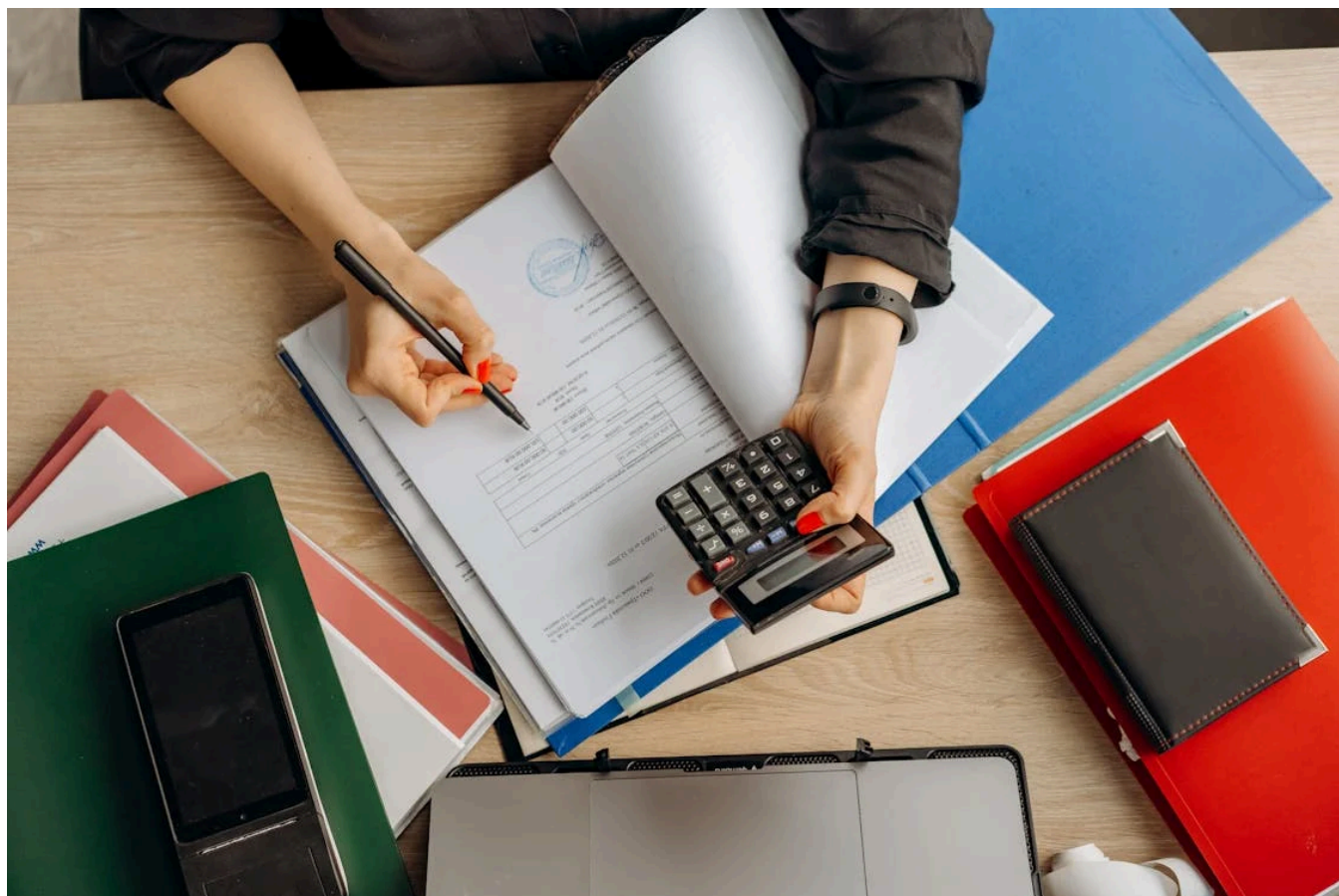


Image: [Pexels](#)

Alt: woman doing paperwork

<h1> The great super squeeze: What Division 296 tax means for your super—and your future </h1>

“The power to tax involves the power to destroy.” – Chief Justice John Marshall, 1819

Australia’s [superannuation](#) system—[now valued at over \\$4.2 trillion](#)—has long been among our proudest national achievements. It is built on bipartisan policy, decades of discipline, and trust from everyday Australians.

But that trust is under threat.

From 1 July 2025, the Albanese Government’s proposed Division 296 tax will impose a new 15% tax on certain superannuation earnings for individuals with total balances over \$3 million. This effectively doubles the tax rate to 30% on a portion of earnings, and for the first time in Australian history, includes unrealised gains.

At [Watson Wealth](#), we believe this policy represents a structural risk to [retirement](#) security. It introduces complexity, penalises prudent savers, and sets a dangerous precedent. Australians must understand the implications now, while the legislation is still before Parliament.

<h2> What is the Division 296 tax? </h2>



Image: [Pexels](#)

Alt: person opening their wallet

From 1 July 2025, individuals with a total superannuation balance (TSB) exceeding \$3 million at 30 June each year will be subject to a new 15% tax on a portion of their earnings, including both realised and unrealised gains.

How It Works:

- Earnings = Closing TSB – Opening TSB (adjusted for contributions and withdrawals)
- Proportion over \$3 million is calculated
- Division 296 tax = 15% of earnings attributable to the excess

Example:

- Super balance at 30 June: \$4 million
- Proportion above threshold: 25%
- Earnings during the year: \$200,000
- Taxable portion: \$50,000
- Division 296 tax = 15% of \$50,000 = \$7,500

It's a tax on growth—even if that growth only exists on paper.

Real-world impact: one-year and 10-year example

To illustrate the long-term implications, consider a retiree with a \$4 million superannuation balance earning an average of 5% annually. Here's how Division 296 could impact them in the first year and cumulatively over a decade, assuming consistent returns and no indexation of the \$3 million threshold:

Year	Super Balance	Annual Earnings (5%)	Proportion Over Cap	Taxable Earnings	Division 296 Tax
1	\$4,000,000	\$200,000	25.00%	\$50,000	\$7,500
2	\$4,200,000	\$210,000	28.57%	\$60,000	\$9,000
3	\$4,410,000	\$220,500	31.97%	\$70,500	\$10,575
4	\$4,630,500	\$231,525	35.21%	\$81,525	\$12,229
5	\$4,862,025	\$243,101	38.29%	\$93,101	\$13,965
6	\$5,105,126	\$255,256	41.24%	\$105,256	\$15,788
7	\$5,360,382	\$268,019	44.00%	\$117,352	\$17,703
8	\$5,628,401	\$281,420	46.57%	\$130,087	\$19,713
9	\$5,909,821	\$295,491	48.95%	\$145,491	\$21,824
10	\$6,205,312	\$310,266	51.21%	\$160,266	\$24,040

**Example only. Returns will fluctuate.*

Over 10 years, the total Division 296 tax paid would be approximately \$152,337.

This example highlights the compounding burden on retirees. And when viewed through the lens of inflation, the impact becomes even more stark. Because the \$3 million threshold is not indexed, its real value erodes annually. What is considered 'wealthy' today may represent only a modest retirement in the decades ahead.

For example, assuming average inflation of 2.5% per year, the real purchasing power of \$3 million today would fall to approximately \$2.33 million in 10 years. That means more Australians will be caught by this threshold over time, not because their wealth increases, but because the threshold stands still while inflation marches on.

This silent creep expands the reach of the tax annually, turning what is being sold as a narrow reform into a broad-based tax on the middle class. At Watson Wealth, we view this as not just a technical flaw but a deliberate policy choice with far-reaching consequences for the financial independence of future retirees.

<h2> Treasure vs reality: who will be affected? </h2>



Image: [Pexels](#)

Alt: person holding a savings jar

Treasury estimates only 80,000 super balances will be affected when the policy begins. But our interpretation, along with forecasts from the Financial Services Council (FSC), suggests that without indexation, over 500,000 balances will eventually be caught.

Treasurer Jim Chalmers has confirmed the cap will not be indexed. That means Australians entering the workforce today are being set up for taxation tomorrow. This is not an accident—it's built into the design.

Peter Burgess, CEO of the SMSF Association, captured the broader concern:

"To claim this tax only affects a minority and serves the national interest is shortsighted... It ignores the ripple effects on small business owners, farmers, and angel investors who rely on SMSFs as part of their long-term plans."

We at Watson Wealth are already seeing the concern this is causing among clients who hold illiquid assets like commercial property, farmland, or private equity.

<h2> Why this tax is a serious concern </h2>

✗ Unrealised Gains Are Taxed – Taxing gains that haven't been realised—and may never

materialise—breaks with established tax principles. Clients may end up paying tax on paper profits that disappear in a downturn.

✗ SMSFs with Property Are at Risk – This policy hits those with illiquid assets hardest. Farmers and small business owners may face forced sales to meet their tax liability.

✗ No Indexation = Guaranteed Expansion – The lack of indexation ensures that the \$3 million cap shrinks in real terms every year. Geoff Wilson’s modelling shows the effective threshold could fall to just \$1 million in today’s dollars within decades.

✗ Dangerous Precedent – Once the government taxes unrealised gains in super, the next step could be taxes on other assets, such as the family home or inheritance.

✗ Political Exemptions – Those crafting the rules remain unaffected. Defined benefit pensions—like those received by many politicians—are exempt from this tax.

We believe public policy must be fair, transparent, and future-focused. Division 296 fails that test.

<h2> The legislative fight is not over </h2>

The Division 296 legislation has not yet passed Parliament. The Albanese Government will need to negotiate a deal in the Senate.

There are two likely paths:

1. The Australian Greens want to lower the threshold to \$2 million, making the policy even harsher.
2. The Coalition opposes the tax entirely.

We support thoughtful reform, not reckless expansion. There is still time to influence the outcome, but the window is narrowing.

<h2> The forgotten sting: how Division 296 punishes families after death </h2>



Image: [Pexels](#)
Alt: mother and daughter

Division 296 doesn't stop when you die. If you pass away with unused Division 296 tax credits, they vanish. Your family can't use them to reduce estate taxes. Meanwhile, capital gains tax liabilities remain in full.

So, families may face a double sting: lost tax credits and payable capital gains. And because Division 296 is independent of all other tax systems, credits can't offset other liabilities.

This has serious consequences for [estate planning](#) and could result in financial shock for grieving families already managing the complexities of probate.

<h2> What you should do now </h2>

Whether your balance is above \$3 million or you're planning ahead, this is not a time to wait. We are working with clients now to:

- Review investment portfolios for liquidity risk
- Assess accumulation vs pension phase strategy
- Consider contribution and withdrawal options

- Prepare cash reserves to manage future tax bills
- Update estate plans to reflect new implications

The sooner you plan, the more flexibility you retain. This isn't about dodging tax but managing risk in an evolving environment.

<h2> Superannuation deserves better </h2>

Division 296 is a tax by stealth, cloaked in fairness but designed for expansion. It undermines confidence, punishes prudent savers, and destabilises one of Australia's most successful policy frameworks.

"You can't tax a nation into prosperity any more than you can lift a bucket while standing in it." – Winston Churchill

At Watson Wealth, we are here to lead—to interpret, advise, and act in our clients' best interests. Let's navigate this change together, with confidence and clarity.

[Contact us](#) today to prepare your super for tomorrow.

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