



Getting the edge with managed funds

7 super tax tips

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In an environment where your investment earnings can be taxed up to 46.5%, super offers a great way to save on tax. That's because super funds are taxed at a concessional 15% on their earnings, instead of at your marginal rate. And that's not all. There are a number of tax effective tips you can use to further boost your super savings. This fact sheet outlines eight.

Ways to save tax with super:

1. Salary sacrifice
2. Make a spouse contribution
3. Split your super contributions with your spouse
4. Get cover through your super fund
5. Self employed? Pick up a deduction
6. Minimise capital gains tax when you sell your business
7. Roll your super into an income stream when you retire

read on for more information...

But, firstly... how is super taxed?

In Australia, super funds pay tax at special concessional rates, making it a very effective way to save for retirement. While your money stays in your super fund it is the trustee of the fund, not you personally, who pays the tax on your behalf.

The Government has announced changes to the way superannuation is taxed from 1 July 2007. A key change is that superannuation benefits will be tax free if paid from a taxed fund to individuals aged 60 or more after 1 July 2007. Reasonable benefit limits will also be abolished from this date.

Currently, your super may be taxed at three different points:

> Contributions

Super funds generally pay 15% contributions tax on all employer contributions, including any contributions made to super via salary sacrifice.

If you are self-employed and claim a tax deduction for your super contributions the 15% contributions tax also applies to these contributions.

These are known as concessional contributions.

However, contributions tax does not apply to voluntary contributions you make from your after-tax income (in other words money you contribute to super from your take-home pay).

> New contribution limits

With the removal of reasonable benefit limits, new limits will apply to the amount you can contribute to superannuation.

Employer contributions and tax deductible contributions made by the self-employed

From 1 July 2007, concessional contributions to superannuation will be limited to \$50,000 per person per annum. These contributions will be taxed at 15%. If you are aged 50 or more, you can make concessional contributions of up to \$100,000 per annum until 2011-12.

If your concessional contributions exceed \$50,000 in a financial year (or \$100,000 if eligible for the higher limit), the excess amount will be effectively taxed at the highest marginal tax rate.

Contributions made from after-tax money

Between 10 May 2007 and 30 June 2007, as a transitional measure, you can make a one-off after-tax contribution of up to \$1 million to your superannuation fund. From 1 July 2007, you can make after-tax contributions of up to \$150,000 in a financial year. People under the age of 60 will be able to bring forward 2 years of contributions. This will allow a person to make a large one-off contribution of \$450,000 in one year with no further after-tax contributions allowed in the following 2 years.

> Investment earnings

Investment earnings on your super are taxed at a maximum rate of 15%. This makes the tax many people pay on their super investment earnings much lower than the tax they pay on their non-super investments, such as managed investments or property, which are taxed at personal income tax rates (up to 48.5%).

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> Benefits

When it is time to access your super, the tax you pay depends on several factors including your age and the way you choose to receive your final super benefit. Depending on what you decide and the timing, it is possible to reduce or eliminate tax at this point.

The Government has announced that from 1 July 2007, if you are aged 60 or over, your benefits will be tax-free regardless of whether you take a lump sum or an income stream.

Less tax means a greater chance for growth

Depending on your circumstances, these tax concessions mean your money has the potential to grow faster in super than it would in a regular non-super investment, which is fully taxed. The chart on the following page, shows an example of how much more a person can have by investing in super and how much longer the money will last you in retirement.

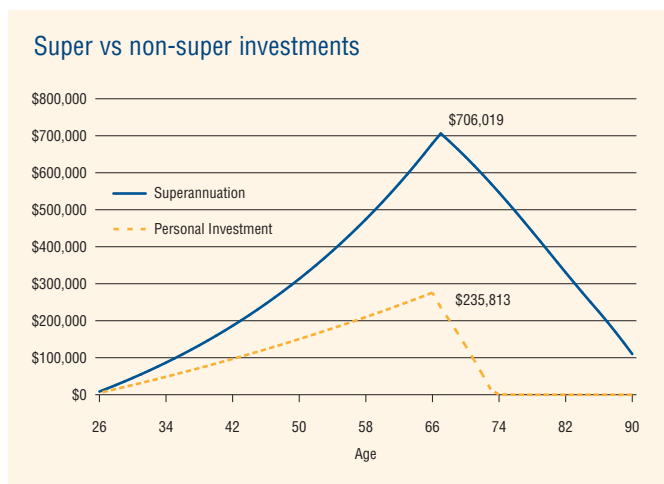


Chart based on identical hypothetical balanced portfolios, returning 7.6% pa (before fees and tax) for the life of the investment, in super versus outside super. Assumes investor is on a 48.5% marginal tax rate (including Medicare levy), salary of \$100,000 and salary sacrifices into super \$10,000 each year indexed to inflation of 2.5% pa. Final super benefit is within Reasonable Benefit Limits (RBLs) and retirement income is \$21,000pa indexed to inflation of 2.5% from age 65.

Source: Colonial First State, 2006

1. Salary sacrifice

Salary sacrifice is an arrangement between you and your employer whereby you agree to forgo an amount of your salary in exchange for an equal amount of super contributions.

The amount you 'sacrifice' is automatically taken out of your gross salary by your employer and placed into your super account. This has the effect of reducing your taxable income. This strategy can be tax effective as you only pay a 15% contributions tax on any salary sacrifice amounts, which may be less than the marginal tax rate you pay on your income (up to 46.5%).

	No salary sacrifice	Salary sacrifice
Gross salary	\$60,000	\$55,000
Salary sacrifice	\$0	\$5,000
Tax on salary*	-\$14,250	-\$12,675
Contributions tax	\$0	-\$750
Net benefit year 1	\$45,750	\$46,065

* Assumes highest MTR of 46.5% and includes the Medicare levy of 1.5%.

Generally, salary sacrifice allows you to pay less tax than you would if you took your full salary as cash. But this depends on your personal circumstances, including what marginal tax rate applies to you.

How to do it

Talk to your employer about setting up a salary sacrifice arrangement. You should have a written agreement in place with your employer before you earn the money in order to receive the tax benefit.

2. Make a spouse contribution

Contributing to your spouse's super is especially beneficial if your spouse has a low income or is not working. You could receive a tax offset of 18% if you contribute up to \$3,000 for your spouse - that could mean an extra \$540 for you.

This tip effectively provides your spouse with a means to build their retirement savings, which is particularly relevant if they are unemployed or temporarily taking time off work.

To qualify, your spouse must be:

- > under 65 years of age, or;
- > aged 65 to 69 and have worked a minimum of 40 hours over a period of not more than 30 consecutive days in the current financial year.

For the purposes of claiming the spouse contributions tax offset, both you and your spouse need to be Australian residents for tax purposes.

To receive the full offset, your spouse must have an assessable income and reportable fringe benefits of less than \$10,800 in the financial year that you make the contribution on their behalf. To qualify for a partial rebate, your spouse must have an assessable income and reportable fringe benefits between \$10,800 and \$13,800.

How to do it

Your super fund or financial adviser can tell you how to set up an account in your spouse's name and make a contribution for them.

3. Split your super contributions with your spouse

From January 2006 you can 'split' (i.e. transfer) up to 100% of your personal super contributions and 85% of your employer super contributions to your spouse's super, or your spouse can transfer contributions to your super account. Check with your super fund to see if splitting is available to you.

Depending on your financial situation, splitting may help you with tax planning - both now and at retirement. Using salary sacrifice contributions for splitting may enable you to reduce your marginal tax rate in the current financial year. It also means at retirement both spouses can take advantage of tax breaks such as:

- > two tax free lump sum super benefit thresholds (currently up to \$129,751 each)
- > two lump sum Reasonable Benefit Limits (RBLs) currently up to \$648,946 each which provide lump sum super benefits at special, low tax rates (more if you take your super as a pension)

Be aware that once you split your contributions they are owned by your spouse, and cannot be transferred back to you. Split contributions are still subject to preservation rules and cannot generally be accessed till retirement. Splitting is also available to those in a de facto relationship, but not same sex couples.

Please note that the Government has announced that from 1 July 2007, splitting of after-tax contributions will no longer be allowed. Non-concessional contributions however will continue to be able to be split.

How to do it

You can split contributions annually after the end of the financial year (after 30 June each year), unless you are closing your account. If you are interested in finding out more about splitting your super contributions contact your fund after June 30.

Be aware that if you are changing funds you must apply to split your contributions in your old fund before you leave. And if you are self-employed, you must give your regular section 82 AAT tax notice to your fund to claim a tax deduction for your personal contributions before you apply to split your contributions with your spouse.

Not all funds will offer splitting and those that do may charge you a fee. It may not be appropriate for you to split your super. You may want to discuss your options with a financial adviser before you make a decision.

4. Get cover through your super fund

Obtaining life and total and permanent disability insurance through your super could be a cheaper, simpler and more tax effective way to purchase cover.

Many people take out insurance via a personal policy and pay for this from their take-home pay. Purchasing insurance through your super allows you to pay for insurance out of pre-tax dollars. You could use the savings you make to obtain a higher level of cover, compared to what you could get outside of super.

How to do it

You may already have insurance cover through your super fund without knowing it. With some funds you are automatically covered when you become a member. Check your latest member statement or contact your fund to find out. If you don't have cover, ask your fund if they offer it. If you have cover, but are not sure you have enough, talk to a financial planner.

There are some intricacies about how insurance claim proceeds are taxed when they are arranged via a super fund. You should consider obtaining advice about how you could be impacted.

5. Self employed? Pick up a deduction

If you are self employed, you are not legally required to contribute to your super, but there are a host of good reasons to do so. For example, you can receive a substantial tax deduction for personal contributions you make to your super and you can save for your retirement at the same time.

The deduction in any financial year is 100% of the first \$5,000 plus 75% of any contribution above that amount, up to a limit, which is related to your age as outlined in the table below.

Income year 2005/06	Maximum deduction limit	Contribution to claim the maximum deduction
Under 35 years	\$14,603	\$17,804
35 - 49 years	\$40,560	\$52,413
50 years and over	\$100,587	\$132,449

The Government has announced that from 1 July 2007, the aged based limits will no longer apply and self-employed people will be able to claim a deduction for 100% of their contributions. Please note however, that such contributions will be subject to the new limits described on page 1.

How to do it

You can make a contribution to most super funds either by making a lump sum payment, or as a regular direct debit from your bank account. Contact your fund to ask how.

6. Minimise capital gains tax when you sell your business

If you are a small business owner you could receive relief from Capital Gains Tax (CGT) when you sell active business assets and invest the proceeds into super. That could mean up to \$500,000 tax-free.

Active business assets commonly include land and buildings used to run a business, or the goodwill of a business. The exemption generally does not apply to gains made from passive (investment) assets, such as shares.

The Government has announced that the proceeds from the disposal of eligible small business assets up to a lifetime limit of \$1 million (indexed) will be exempt from the new limit on non-concessional contributions from 1 July 2007. The \$1 million exemption from the cap may include up to \$500,000 of capital gains that are disregarded under the CGT exemption (known as the retirement exemption) and proceeds from the disposal of assets that qualify for the CGT exemption.

How to do it

In short, to qualify for these capital gains tax concessions you must have sold a small business active asset and produced a capital gain. In addition, your net income producing assets (excluding super) must be less than \$5 million and your business must be operated as a sole trader, partnership, private company or private trust. For private companies and trusts, further and more complex requirements apply. Talk to your financial planner or accountant for more details and to find out what information you need to provide to your super fund with proceeds from the sale.

7. Roll your super into an income stream when you retire

When you reach retirement you can roll over your super into an income stream. Income streams are an alternative to taking your super benefit as a lump sum when you retire. An income stream will pay your super benefit to you over a period of time as regular income. Essentially, 'income streams' refers to annuities and pensions. Annuities and pensions are similar types of products - however, they are provided by different entities.

Annuities are paid by life insurance companies and registered organisations and arise from the terms and conditions of a contract between the policy owner and provider. Annuities may be purchased using either ETP or ordinary money (i.e. private savings), but not a combination of the two.

Pensions are payable by super funds. A pension can only be commenced with super or an ETP and cannot be commenced using ordinary money.

There are many forms of income streams:

- > term annuity/pension
- > lifetime annuity/pension
- > allocated annuity/pension
- > term allocated annuity/pension

Income streams can be a tax-effective way to provide income in your retirement because:

- > investment earnings are not taxed in the fund
- > while the income payments you receive are taxed, they may have a tax-free component
- > you could also be entitled to a tax offset of 15% on that part of the income that is taxable

New rules for the payment of income streams will come in effect on 1 July 2007. For more information about these changes, you can visit: simplersuper.treasury.gov.au.

How to do it

If you are approaching retirement, it is an important time to seek help from a financial planner. There are a number of issues to consider including: social security, taxation and funding an income. Your planner will be able to provide you with more information about income streams and your options.

Getting good advice

These seven tips are intended as a guide only and there may be other tax effective strategies that are more relevant to your personal situation. We recommend you speak to a qualified financial planner who will be able to determine the best solution for your needs.

If you need help finding a financial planner, refer to IFSA's *Six easy steps*.

For other ways to maximise your super refer to IFSA's *Give your super a helping hand* and *Smarter super: make the most of your retirement*.