



SUPERANNUATION

Contributions, Investing, Pensions and Estate Planning

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Superannuation

- **Making contributions**
- **Investing (using gearing)**
- **Starting your pension**
- **Estate planning**
- **Budget update**

1. Making Contributions

Concessional Contributions		Non-Concessional Contributions	
Age	Maximum Contribution	Age	Maximum Contribution
Up to 75	\$25,000 pa.	Up to 75	\$150,000 pa.
▪ \$50,000 available for individuals over 50		▪ \$450,000 available if <65 & 3 years paid up – then no contribution for next 2 years	

Work tests apply for contributions to be made for anyone 65 to 74

Contributions cease completely at age 75

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Maximising Contributions

Super vs Personal

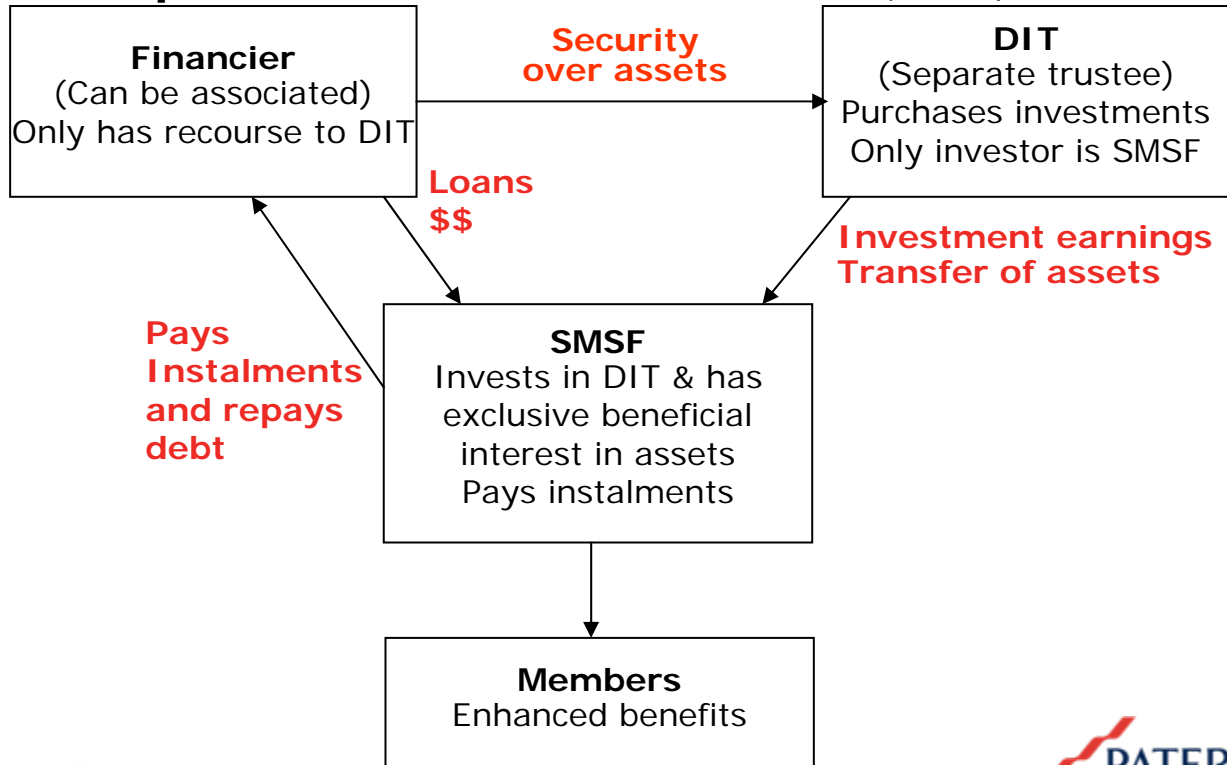
Investment Yield	7.0%
Tax Rate - fund	15.0%
Tax Rate - personal	39.5%

	<u>Super</u>	<u>Personal</u>
Gross Amount	50,000	50,000
	7,500	19,750
	<u>42,500</u>	<u>30,250</u>

	<u>Super</u>	<u>Personal</u>	<u>Improvement</u>
Net Value - Year 1	45,029	31,531	13,498
Net Value - Year 3	143,283	98,656	44,627
Net Value - Year 5	253,578	171,586	81,992
Net Value - Year 10	592,123	382,717	209,406
Net Value - Year 15	1,044,105	642,505	401,600
Net Value - Year 20	1,647,534	962,163	685,370

2. Investing (using gearing)

- Set up a Debt Instalment Trust (DIT)



2. Investing (using gearing)

- Trustee of DIT needs to be different to SMSF
- Borrowings must be used to acquire an asset(s) in the DIT
- Existing fund assets cannot be used – apart from cash
- Super fund must have sole beneficial interest in asset(s) and the right to acquire them through payment of instalments
- The payment of any liability must be limited to the assets of the DIT and there must be no obligation on the super fund to make any future payments
- The underlying investments must be allowable under Superannuation Law if the super fund had held them directly (eg. not an 'in-house' asset)

2. Investing (using gearing)

If these conditions (and others) are adhered to:

- Capital gains tax should not be payable on transfer of assets to SMSF
- The super fund would not impinge its complying status

To purchase property

- **Purchase premises for your business & contribute to Superannuation**

Assumptions:

1. You would like to purchase a property for \$500,000
2. The property yields 8%
3. You have \$200,000 deposit and you borrow \$300,000
4. 8% interest payable on loan
5. You & your spouse are employees of your business
6. Your personal tax rate is 39.5%

To purchase property

Personal Gearing

Income	\$50,000
Rent	\$40,000
Interest	(\$24,000)
Tax payable @ 39.5%	(\$26,070)
Net funds to invest	\$39,930

Gearing through Super Fund & DIT

Contribution	\$50,000
Rent	\$40,000
Interest	(\$24,000)
Tax payable @ 15%	(\$9,900)
Net funds to invest	*\$56,100

* Instalment to DIT to pay debt

To augment portfolio returns

■ Gear up your share portfolio

Assumptions:

1. Dividends yield 4% and are fully franked
2. 4% capital gains (unrealised)
3. \$300,000 borrowings
4. 8% interest payable on loan

To augment portfolio returns

Super Fund – No Gearing

Fund Balance	\$200,000
Capital Gain	\$8,000
Dividends	\$8,000
Interest payable	\$0
Imputation Gross Up	\$3,429
Tax Payable @ 15%	(\$1,714)
Franking credit	\$3,429
Net Inc. & gain	\$17,715
Return	8.86%

Super Fund – Geared DIT

Fund Balance	\$500,000 (\$300,000)
Capital Gain	\$20,000
Dividends	\$20,000
Interest payable	(\$24,000)
Imputation Gross Up	\$8,571
Tax Payable @ 15%	(\$686)
Franking credit	\$8,571
Net Inc. & gain	\$23,885
Return	11.94%

Improvement \$6,170 (3% greater return)

3. Starting your Pension

■ Whether you want it or not

- Assumptions:**
1. Dividends yield 4% and are fully franked
 2. 4% realised capital gains (>12 months)

No tax on income or realised gains

No Pension		Pension Paid*	
Fund Balance	\$500,000	Fund Balance	\$500,000
Capital Growth	\$20,000	Capital Growth	\$20,000
Dividends	\$20,000	Dividends	\$20,000
Contributions	\$50,000	Contributions	\$50,000
Franking Gross Up	\$8,571	Franking Gross Up	\$8,571
Tax payable @ 15%	(\$13,786)	Tax payable @ 15% on \$50k + 10% of earnings	(\$8,129)
Imputation credit	\$8,571	Imputation credit	\$8,571
Net tax payable	(\$5,215)	Net tax refund	\$442

\$5,657 pa. better off – tax rate 0%

*If age 55-64, a minimum pension of \$20,000 must be paid

3. Drawing a pension while still working

■ Transition to retirement pension

Assumptions:

1. Client age 60 and still working
2. \$500,000 in super fund
3. Salary \$130,000 pa.
4. \$50,000 of salary contributed to superannuation

Transition to retirement pension

Salary Only	
Salary	\$130,000
Tax payable + Medicare	(\$38,800)
Net Salary after Tax	\$91,200
Pension Payment	\$0
Take Home Pay	\$91,200
Super Contribution	\$0
Cont. Tax @ 15%	\$0
Total Tax Payable	\$38,800

Pension, Salary and Super	
Salary	\$80,000
Tax payable + Medicare	(\$19,050)
Net Salary after Tax	\$60,950
Pension Payment	\$30,250
Take Home Pay	\$91,200
Super Contribution	\$50,000
Cont. Tax @ 15%	(\$7,500)
Total Tax Payable	\$26,550

\$12,250 pa. better off

3. Starting your pension

Super vs Personal

Investment Yield	7.0%
Tax Rate - fund	15.0%
Tax Rate - personal	39.5%

	<u>Super</u>	<u>Personal</u>
Gross Amount	50,000	50,000
	<u>7,500</u>	<u>19,750</u>
	42,500	30,250

	<u>Super</u>	<u>Personal</u>	<u>Improvement</u>
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No tax on drawings after age 60

Net Value - Year 20 1,647,534 962,163 685,370

What if you pay an income from each? - assume same return

	<u>Super</u>	<u>Personal</u>
Income - year 20	115,327	67,351
Tax Payable	-	26,604
Net Benefit	<u>115,327</u>	<u>40,748</u>

Improvement

74,579 283%

Assumes paid out after age 60

4. Estate planning

Myth #1

My super will be taken care of through my Will

Myth #2

My shares & property can stay in my super fund for the benefit of my children

Myth #3

Now that I am 60 my super will never be taxed again

Beneficiaries

Superannuation Law

Spouse or Partner

Children (of any age)

Financial dependants

Interdependency relationships

Estate

Former spouse

Taxation Law (dependants)

Spouse or Partner

Children under 18 (25) or legally dependant

Financial dependants

Interdependency relationships

Estate?

Beneficiary nominations - options

1. Make no nomination

Trustee has full discretion and will search for beneficiaries to make payment to

2. Make a (non-binding) nomination

Trustee has full discretion but will consider nominated beneficiaries

3. Nominate a reversionary beneficiary

Usually an ongoing pension to a spouse (similar to a life interest in an estate)

Beneficiary nominations - options

4. Make a **BINDING** nomination

Trustee **must** follow the BINDING nomination (if valid at time made and at death).

This is the only method by which you can guarantee that a benefit will be paid to your estate (or any beneficiary)

Court orders (eg. Family court) can override any nomination even a Binding nomination

When superannuation is paid out

Benefits must be paid out in full:

1. On the death of the last remaining pensioner
2. When children receiving a pension turn age 25

Taxation on death

- **Even if you are 60 your super will be taxed**

1. Tax payable on wind up of fund (CGT & income tax)

2. Tax payable by beneficiaries (personal tax)

NOTE: - every superannuation balance will have:

- Exempt component – eg. personal (undeducted) contributions
- Taxable component – eg. employer contributions, fund earnings

Taxation on death

Pension paid – under 60

1. No income tax or CGT payable by the fund
2. If both the deceased and the surviving spouse are under 60 then tax is:
 - 0% on exempt component
 - Marginal tax on taxable component, less 15% rebate
 - 0% on taxable component, when age 60

Pensions CANNOT be paid to non-dependants

On death of last survivor the pension must be paid as a lump sum

Taxation on death

Pension paid – over 60

1. No income tax or CGT payable by the fund
2. If either the deceased or surviving spouse is over 60 then:
 - 0% on exempt component
 - 0% on taxable component

Pensions CANNOT be paid to non-dependants

On death of last survivor the pension must be paid as a lump sum

Taxation on death

Lump sum paid to dependants

1. Income tax & CGT payable when fund is wound up – assets redeemed or transferred
2. No tax payable on benefit payment to financial dependants – regardless of amount
 - Anti-detriment claim may be possible

Taxation on death

Lump sum paid to non-dependants

1. Income tax & CGT payable when fund is wound up – assets redeemed or transferred
2. Tax payable on benefit payment to non-dependants
 - 0% on exempt component
 - 16.5% (including Medicare Levy) on taxable component
 - 31.5% on untaxed component eg. life insurance payout, public sector scheme

Minimising tax

- **In the fund**

Reduce CGT payable by turning over the portfolio (if appropriate)

– BEWARE of ‘wash sales’

- **To non-dependent beneficiaries**

1. Spend all of your pension fund; or

2. Withdraw all of your fund after age 60 and gift it to your children; or

3. Withdraw and re-contribute to reduce taxable component

Minimising tax to beneficiaries

Withdraw & re-contribute – example \$1m super

Steps

1. Withdraw \$450,000
2. With \$550,000 remaining commence pension #1 – 100% taxable
3. Re-contribute \$450,000 withdrawn as non-concessional contribution
4. Commence pension #2 with \$450,000 re-contribution – 100% tax exempt
5. At age 64 (say in June of financial year) withdraw \$450,000 from pension #1
6. In new financial year (before turning age 65) re-contribute \$450,000
7. Commence pension #3 with \$450,000 re-contribution – 100% tax exempt

Minimising tax to beneficiaries

Withdraw & re-contribute – example \$1m super

Assumptions

- Client age 62 and **retired** (not 63 until after next 1 July)
- Current fund balance \$1,000,000 – all taxable component
- No non-concessional contributions > \$150,000 in past 2 years
- Investment earnings ignored

Minimising tax to beneficiaries

Withdraw & re-contribute – example \$1m super

Steps – year 1

1. Withdraw \$450,000
2. With \$550,000 remaining commence pension #1 – 100% taxable
3. Re-contribute \$450,000 withdrawn as non-concessional contribution
4. Commence pension #2 with \$450,000 re-contribution – 100% tax exempt

Minimising tax to beneficiaries

Withdraw & re-contribute – example \$1m super

Steps – years 3 & 4

5. At age 64 (say in June of financial year) withdraw \$450,000 from pension #1
6. In new financial year (before turning age 65) re-contribute \$450,000
7. Commence pension #3 with \$450,000 re-contribution – 100% tax exempt

Minimising tax to beneficiaries

Withdraw & re-contribute – example \$1m super

End result

- Pension #1 \$100,000 – 100% taxable
- Pension #2 \$450,000 – 100% tax-exempt
- Pension #3 \$450,000 – 100% tax-exempt

Total components: 10% taxable; 90% tax-exempt

Tax payable on death by beneficiaries

Without re-contributing		After 2x \$450,000 re-contrs.	
Fund balance	\$1,000,000	Fund balance	\$1,000,000
Taxable component	\$1,000,000	Taxable component	\$100,000
Exempt component	\$0	Exempt component	\$900,000
Tax payable @ 16.5% *	(\$165,000)	Tax payable @ 16.5% *	(\$16,500)
Net funds to beneficiaries	\$835,000	Net funds to beneficiaries	\$983,500

* Tax payable by beneficiaries – does not take into account tax payable in the fund eg. CGT

Improvement \$148,500

Minimising tax

Preferable outcomes

- 1. Turn over your portfolio to reduce unrealised gains**
- 2. Reversionary pension to dependant beneficiary**
- 3. Withdraw entire super balance after age 60**
- 4. Reduce 'taxable component' through withdrawal & re-contribution**

Budget update

- 1. Co-contribution reduced – permanently**
- 2. Contributions tax rebate – for low income earners**
- 3. SG increasing to 12% by 2019**
- 4. SG age limit extending from 70 to 75**
- 5. Extension to \$50,000 concessional contribution**

Budget update

Co-contribution reduced - permanently

- Maximum now 100% of personal contributions or \$1,000

Budget update

Contributions tax rebate – for low income earners

- From 1 July 2012 a 15% tax rebate (up to \$500) will be paid to super funds for anyone with 'adjusted taxable income' of up to \$37,000 pa.

Salary	Contribution	Tax rebate
\$25,000	\$2,250	\$338
\$30,000	\$2,700	\$405
\$37,000	\$3,330	\$500

Budget update

SG increasing to 12% by 2019

Financial years	SG % rate
2009/2013	9.00%
2013/2014	9.25%
2014/2015	9.50%
2015/2016	10.00%
2016/2017	10.50%
2017/2018	11.00%
2018/2019	11.50%
2019/2020	12.00%

Budget update

SG age limit extending from 70 to 75

- Even if you continue to work SG now cuts out at age 70
- From 1 July 2013 the SG will extend to anyone 70 to 75 and working

Budget update

Extension to \$50,000 concessional contributions

- Was due to reduce to **\$25,000** from 1 July 2012
- **\$50,000** still available for anyone 50 & over and with less than \$500,000 in super

Superannuation

- **Making contributions**
- **Investing (using gearing)**
- **Starting your pension**
- **Estate planning**
- **Budget update**

Superannuation

What to do next?

If appropriate:

- Maximise your contributions
- Utilise gearing to enhance your returns
- Commence your pension if over 55
- Ensure your will & super fund are in order
- See us for a complimentary review

Disclaimer

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