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Leading up to 30 June 2010 we have prepared a bulletin about 8 things that Retail and Self Managed Superannuation Fund members should consider doing before 30th June 2010

The key to good tax planning is good preparation, and leaving things to the last minute can create problems.

SMSF has retained its appeal as a key super strategy in annual tax planning. However, due to low concessional caps, it is prudent to put some strategies in place outside super, such as gearing, effective tax structuring and maximising specific investment opportunities as the financial year draws to a close. Thanks to being able to take your super tax-free from age 60, super is still a great way to build wealth and save tax.

Below we give 8 such opportunities which a SMSF member **MUST** explore before the financial year ends. Some of these strategies apply to retail superannuation members too.

1. Maximise Deductible contributions

Superannuation is a practical method of tax planning, but contributions have to be received by June 30 by the fund, if they are to be deductible in this financial year. If a taxpayer doesn't have enough cash on hand to make a significant contribution, other liquid assets such as shares in ASX-listed companies can be transferred to the SMSF in lieu of cash, but care needs to be taken when borrowing to fund super contributions as super benefits are preserved in the fund till a condition of release is met, usually at retirement and age 55 for those born before 1960.

Deductible contributions are taxed within the fund at 15 per cent rather than your marginal rate and income within the SMSF are taxed at a maximum 15 per cent, allowing your money to grow faster. Any unrealized gain in the SMSF is not taxed and if held till the member moves to pension phase.

2. Maximise Personal deductible contribution

Personal contributions made by individuals who are self employed and satisfy the 10% rule are eligible to be claimed as a tax deduction. The maximum deduction that can be claimed is \$25,000 if the taxpayer is under 50 or \$50,000 if the taxpayer is 50 or older. The 10% rule requires that less than 10% of the total of the individual's assessable income, reportable fringe benefits and reportable employer superannuation contributions for the financial year comes from employment- related activities.

Taxpayers who turn 50 any time during the financial year are entitled to access the higher \$50,000 concessional contribution limit irrespective of when the contribution is made during the financial year, which means that to access higher contribution limit, if you are turning 50 in this financial year, you must have celebrated your 50th birthday before or on 30th June 2010.

Care should be taken to calculate 10% of income as any Salary sacrifice contributions and other voluntary employer contributions (referred to as "reportable employer superannuation



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contributions") are now included in the calculation of the taxpayer's income derived from employment related activities.

Further, any tax deduction is limited to the individual's taxable income in that financial year (i.e. the deduction cannot create or increase a tax loss).

3. Maximise non-concessional contribution

If you contribute less than \$150,000 during the financial year, the unused cap amount is not carried over to future financial years. Therefore, where possible, make full use of your annual cap entitlement and your ability to maximise your retirement savings.

If you turned 65 during the financial year (you must be 64 on 1st July 2009) you are still entitled to bring forward two years worth of contributions and make a contribution of up to \$450,000 in this financial year (assuming that you have not already triggered the bring forward rule). You will need to satisfy the work test in this financial year if you are over age 65 when you make the contribution. This work test means that you have worked at least 40 hours within 30 consecutive days in a financial year.

Please note that if \$450,000 is contributed in one year, any non-concessional contributions in the next two years will attract penalty tax. For Co-contributions reasons (see below point 7), it is recommended to contribute only \$448,000 and then \$1,000 in the following two years.

Restricting your maximum contribution to \$150,000 during the financial year in which you turn 63 or 64 and then triggering the 3 year bring forward rule by making a \$450,000 contribution in the financial year in which you turn age 65, will enable you to maximise your retirement savings by age 65.

If you were 65 or older on the 1st of July of this financial year your fund is only permitted to accept contribution amounts not exceeding \$150,000 per contribution.

However, if you had previously triggered the bring forward rule and you are therefore entitled to contribute more than \$150,000 per year without incurring excess contributions tax, you are still able to make multiple contributions to your fund which in aggregate exceed \$150,000 as long as no one contribution exceeds \$150,000.

4. Contributions for Spouse - Superannuation Tax Offset

Taxpayers are entitled to a maximum \$540 tax offset for superannuation contributions made on behalf of a low income or non-working spouse. The maximum rebate of \$540 is based on 18% of a maximum \$3,000 non-concessional contribution.

The maximum rebate is reduced by \$1 for each \$1 that the total of the spouse's assessable income, reportable fringe benefits and reportable employer superannuation contributions exceeds \$10,800 cutting out completely one this figures reaches \$13,800.

5. Commence a pension before 30th June 2010

One of the most significant tax concessions applying in relation to a complying SMSF is the taxation rules for pension assets. This tax concession provides that income derived in relation to assets supporting a pension is exempt from tax. However, income derived in relation to assets supporting accumulation entitlements is taxable.

Where the member is over 60 years old, the pension payments drawn from the SMSF is tax free. Hence to commence a pension for all members who are over 60, effectively creates a tax free environment for the taxpayer.

If the pension is commenced on 1st July 2009, to meet the pension condition, the member must make a minimum withdrawal before 30th June 2010. This minimum withdrawal is 4% of account balance of the member as on 1st July 2009. Due to GFC issues the government has announced that this minimum withdrawal amount is halved for the financial year ended 30th June 2010.

6. Commence a Transition to Retirement Pension before 30th June 2010

If a member of a SMSF is over the preservation age (55 years for those members born before 1960) and working, he can commence an income stream from his superannuation interest from 1st July 2009 as long as minimum amount is withdrawn as an income stream before 30th June 2010.

The pension assets of the SMSF supporting a pension are exempt from income tax. But when any "taxable component" is withdrawn by a member, it is included in their income tax return if the member is between 55 to 59 years.

However, combined with salary sacrifice and 15% pension rebate, this strategy can create amazing results. This is explained with an example.

Example

Ann is 57 year old and her superannuation interest is \$500,000 of 100% taxable component. This year the SMSF has earned 7% income. Her salary package is \$87.2K (\$80,000 + 9% super) and she needs all the salary to survive (Salary \$80,000 less tax \$19,110 = \$60,890 cash).

Her Super fund has earned \$35,000 and will pay \$5250 tax with net after tax of growth of

\$29,750. Her total contributions in super are \$7,200 and after 15% tax, Ann will have \$6,120 more in super.

If Ann stays in her current situation, her total after tax benefits from all sources are \$96,760 (salary \$60,890 + new contribution \$6120 to the fund + \$29,750 income of the fund) and her fund balance would be \$535,870 (\$500,000 opening balance + income after tax \$29,750 + contributions after tax \$6120).

To increase her retirement benefits, Ann would have to take the following steps:

- 1) Commence her pension as a transition to retirement pension on 1st July 2009;
- 2) Salary Sacrifice the maximum amount of \$50,000 from her package of \$87,300;
- 3) Withdraw \$35,111 as a pension from her fund.

After maximum salary sacrifice Ann's salary will be \$37,300, after tax of \$5,628 she will be left with \$31,572 cash and to maintain her standard of living of \$60,890 she would have to withdraw grossed up amount of the balance \$29,318 from her super.

Ann is on marginal tax rate of 31.5% till she reaches \$80,000, if she withdraws up to \$42,800 she will pay no more than 16.5% tax after getting a credit of 15% pension tax offset.

If she withdraws \$35,111 (which is below the maximum 10% of \$500,000 as she is on transition to retirement pension) from her super fund, she will end up with additional cash of \$29,318 after tax of \$5,793 (16.5% of \$35,111) which she requires to maintain her lifestyle with total cash of \$60,890.

At individual level her taxable income will \$72,311 (Salary \$37,200 + Pension of \$35,111) and her tax would be \$11,421 after 15% pension rebate, which is the same \$60,890 as if she has not taken a transition to retirement pension.

The super fund will pay \$7,500 on \$50,000 contribution and no tax on income. Her super balance will be \$ 542,389 (opening balance \$500,000 less withdrawals of \$35,111 plus \$50,000 contributions less \$7,500 tax on contributions).

By going on TRIP, Ann has increased her net worth by \$6519 (\$42,389 less \$535,870) and has been able to maintain her lifestyle as before.

7. Benefit from co-contribution by contributing \$1,000 after tax before 30th June 2010.

Eligible personal superannuation contributions are matched dollar for dollar by the Government up to a maximum government co-contribution of \$1,000.

For 2009/10 the maximum government co-contribution is payable to individuals on incomes at or below \$31,920, and reduces by 3.333 cents or each dollar by which the individual's total income for the year exceeds \$31,920 cutting out completely once an individual's total income reaches or exceeds \$61,920.

It is possible that after tax contribution gives a better result than salary sacrifice.

Example

If your total income is \$51,920 and you salary sacrifice \$1,460 the tax benefit is 16.5% (marginal tax rate of 31.5% less tax on contribution of 15%) or \$241 but if the same \$1,000 (Gross \$1460 less 31.5% tax) is contributed after tax to super, the benefit is \$334 (\$51,920 less \$31,920 = \$20,000 times 3.33 cents in each dollar or \$666 which will be reduced from the full \$1,000 co-contribution).

Self employed taxpayers should note that In order to be eligible for the government co-contribution, 10% or more of total income for the financial year must be attributable to either or both of:

1. employment-related activities, and
2. the carrying on of a business

8. Sell loss making assets to counter capital gain

SMSF which are in accumulation phase pay 15% tax on any capital gain. However, if the asset is held for longer than one year, the super fund pays tax only on 2/3rd gain.

It is possible for a SMSF to realize capital gain on shares already sold and is holding shares which have down in value but not yet sold (unrealised), If this happens, the fund will pay capital gain tax on shares which are sold and carry forward unrealized loss.

If these loss making shares are also sold before the financial year ends, then the SMSF is able to negate tax on any capital gain already made by the fund.

Example

Joseph set up his SMSF in September 2009 and rolled over all his existing funds to his SMSF. He then purchased ten different company shares with all the money in the fund. In March 2010 five of the ten shares were sold at a profit of \$50,000 and no more shares were sold.

Joseph now owns 5 different company shares and has a fixed deposit in his SMSF. If the remaining five company shares are sold today, Joseph will make a loss of \$60,000.

Joseph has two options;

- 1) Sell the loss making shares up to the gain of \$50,000 before 30th June 2010 and carry forward the unrealized loss of \$10,000; OR

2) Pay tax of \$7,500 on \$50,000 gain on sale of 5 company shares and carry forward the unrealised loss of \$60,000 in the other 5 company shares.

For more information and to discuss how this may impact your situation speak to us.

Regards,

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