

Sherrin Partners – Education Flyer

Superannuation

Benefits of Superannuation

Superannuation is a specially designed investment for your retirement savings. A major benefit of superannuation is the concessional tax rates that apply to both the accumulation phase and retirement phase.

There are rules as to when funds may be withdrawn as well as limits on the amount of superannuation that can receive a concessional rate of tax.

In the accumulation phase, superannuation fund earnings are taxed at a maximum rate of 15%. Employer SGC, salary sacrifice and personal deductible contributions are included in assessable income and are also taxed at 15%. It is possible to reduce the rate of tax in some instances. For example, a fund that invests in shares that pay franked dividends is entitled to use the imputation credits to offset its overall tax liability.

Where a superannuation fund is paying a regular income, referred to as the 'retirement phase', a superannuation fund pays no tax on its earnings.

Tax may also be payable if you withdraw your benefits from superannuation as a lump sum when you are under age 60. The Government legislated from 1 of July 2007, the current superannuation tax components will be replaced by two new components, 'Tax Free'(Exempt) and 'Taxable' (Non-Exempt)

Exempt component - this will comprise the pre-July 1983, CGT exempt, post-June 1994 invalidity, concessional and undeducted components and are tax free.

Non-exempt component - this will comprise the post-June 1983 and non-qualifying components. This will be tax free up to the low rate threshold which is currently \$150,000 for the 2009/10, with any amounts in excess of this taxed at 16.5% (21.5% for those aged under 55).

The tax paid on withdrawals of each of these components varies and in most cases will be exempt from tax for individuals over the age of 60.

be These concessional tax rates mean that superannuation can more tax-effective than investments made outside of superannuation where tax is paid at your marginal rate.

When can I access my superannuation?

Different components of your superannuation benefits may be subject to different preservation rules. The preservation rules determine when you can gain access to your superannuation benefits. Details of the preservation status of your benefits should be contained on your latest superannuation fund statement.

Preserved superannuation benefits become accessible when you meet a condition of release. The most common conditions of release are permanent retirement from the workforce over age 55, reaching age 65 and becoming permanently incapacitated. For those born between 30 June 1960 and 1 July 1964, the minimum retirement age is being

incrementally increased from age 55 to age 60. For those born after 30 June 1964 the minimum retirement age for superannuation purposes will be age 60

Unrestricted non-preserved benefits can be accessed at any time but may still be subject to tax on withdrawal.

It is important to understand that all new contributions will be classified as preserved benefits until a condition of release is satisfied.

Deductibility of Personal Superannuation Contributions (Concessional Contributions)

Individuals who contribute to superannuation can claim a tax deduction for the entire contribution, up to the relevant annual concessional cap, if you are deemed as an eligible person. An eligible person is someone who has little or no superannuation support.

An eligible person will have little or no employer superannuation support and may include individuals who are:

- Totally self-employed;
- Substantially self-employed;
- Not receiving or entitled to any employer support;
- Retirees;
- Invalids.

If you only receive a small amount of employer superannuation support, you may qualify as 'substantially self employed' and be able to claim the tax deduction. You may be considered to be substantially self employed if your eligible employment income, including the grossed up value of fringe benefits included on their group certificate (referred to as 'reportable fringe benefits'), earned during the year is less than 10% of your total assessable income and reportable fringe benefits.

Concessional Contributions Cap

Age on last day of financial year	Annual cap amount	
< 50	\$25,000	
50+	\$50,000	Note: Only Mandated employer contributions can be made from age 75

Types of contributions that will count towards the CC cap include (but are not limited to):

- Employer contributions (including Salary sacrifice contributions).

- Personal contributions for which the client is claiming a tax deduction.

There are other main inclusions and exclusions for the CC cap that may apply and will need to be considered when making contributions to superannuation.

Non-Concessional Contributions

Non-Concessional Contributions (previously known as Undeducted Contributions) are personal contributions where no tax deductions are claimed. The contributions are made from after tax income. Spouse contributions are included in the definition of Non-Concessional Contributions (NCCs).

Any NCCs made to a superannuation fund retain their fixed dollar value. Therefore, investment growth is not added to the component but added into the Taxable component of your superannuation fund. From 1 July 1999 all NCCs made have been preserved.

NCCs made prior to 1 July 1999, will be regarded as restricted non-preserved but will change to unrestricted non-preserved on leaving employment with your current employer and can be accessed at any time.

There is no tax payable by the superannuation fund when a NCC is made and no tax is payable when NCCs are withdrawn from superannuation either as a lump sum or as part of a regular pension payment (for an individual under age 60).

Non-Concessional Contributions Cap

Age on last day of financial year	Annual cap amount
< 65	\$150,000 ¹ or 3 year limit of \$450,000 ²
65 - 75	\$150,000
75+	Non Concessional contribution cannot be accepted

¹This figure is six times the standard CC cap

²Once triggered (by exceeding the annual cap), the 'three-year' NCC cap is not indexed.

A '3-year' NCC cap will allow clients to bring forward two years of future contribution entitlements, giving them a cap of \$450,000 over three financial years provided they are under age 65 at any time in the first year.

From the 2009/10 onwards, this cap will change to 6 six times the Concessional Contributions cap and will be increase in line with the indexation of this cap.

This cap is triggered in a given financial year when contributions exceed the indexed \$150,000 cap. The 3-year NCC cap is not indexed once triggered. Note: In addition to work

tests from age 65, some restrictions may apply to the amount that can be contributed even where the 3-year NCC cap has been triggered.

- Clients aged 63 and 64, who take advantage of the 3-year NCC cap, will not be required to meet the work test in either of the following two financial years, unless they make contributions in those years.
- Contributions in excess of the NCC cap will be taxed at 46.5%.

Government Co-Contribution

To further encourage the use of superannuation as a retirement planning vehicle, the Government has introduced a 'Co-Contribution' scheme. Under this arrangement, eligible people who make a personal Non-Concessional contribution to superannuation will have a further contribution made by the Government.

To be eligible, you must have an assessable income (plus reportable fringe benefits) of \$60,920 or less for the year must be attributable to eligible employment. Specifically, at least 10% of your total income must be from eligible employment. Furthermore, you must be under 71 years of age at the end of the year and not hold an eligible temporary residence visa at any time during the year.

The Government Co-Contribution will be a Non-Concessional Contribution when deposited into your superannuation fund however will not count towards your Non-Concessional contributions cap of \$150,000 per annum or \$450,000 over a rolling three year period and will be subject to normal preservation rules. It will be automatically paid once you have submitted your annual tax return.

For the 2010/11 financial year, the Co-Contribution will apply to people with assessable income and reportable fringe benefits of up to \$31,920 per annum. For self-employed persons, this amount will also be reduced by their expenses incurred in carrying on a business.

From 1 July 2009, the definition of income used to determine eligibility to the superannuation co-contribution will be expanded to include salary sacrificed contributions to superannuation.

	2009/10 to 2011/12	2012/13 and 2013/14	2014/15 onwards
Matching Rate	100%	125%	150%
Maximum Co-Contribution	\$1,000	\$1,250	\$1,500
Cent reduction where in excess of threshold	3.333 cents	4.167 cents	5 cents

Spouse Superannuation Contributions

The superannuation legislation allow taxpayers to make after tax contributions to superannuation on behalf of their spouse (who is under age 65) regardless of whether the contributing spouse or receiving spouse is working.

The contributing spouse may be eligible for an 18% income tax rebate, up to a maximum of \$540, for contributions up to \$3,000 per annum to a complying superannuation fund to their spouse. The full rebate is available where assessable income of the spouse is below \$10,800 per annum.

The rebate entitlement phases out gradually (\$1 for \$1 reduction) as the recipient spouse's assessable income increases to \$13,800, above which no rebate will be available. The rebate is only available when both spouses are Australian residents for tax purposes.

Salary Sacrifice Superannuation Contributions

Salary sacrifice is where you forgo part of your gross salary in return for increased contributions to superannuation. This results in a reduction in your taxable income and also reduces your income tax payable. Salary sacrifice contributions are classified as employer contributions and the 15% contributions tax is paid within the superannuation fund.

The benefit of superannuation salary sacrifice is that you pay a reduced rate of tax on these contributions. Rather than pay your full marginal tax rate, if the funds were taken as cash salary, you pay a reduced tax rate of only 15% on the funds contributed to superannuation.

These contributions will count towards your Concessional Contributions cap.

Salary sacrifice can be a tax effective way of building superannuation for retirement for the following reasons:

- Apart from tax advantages, having superannuation paid automatically from your salary before it is actually received ensures regularity in your contributions and growth in your retirement savings.
- If your entire salary is paid to you in cash, you lose a portion of it to income tax (for example, 48.5% will be lost to tax if you are on the highest marginal tax rate);
- If your employer pays part of your salary to your superannuation fund, it is not included in your assessable income and hence the whole amount is contributed to your super fund. The trustee will levy the 15% contributions tax. This results in a net tax saving (assuming that your marginal tax rate exceeds 15%). As a consequence, you may have a larger amount to invest and work for you; and
- Imputation credits within your fund provide the opportunity to reduce this tax even further.
- Salary sacrifice superannuation contributions are not counted as employee fringe benefits but are separately reported and form part of your adjusted taxable income.

Taxation of Lump Sum Superannuation Withdrawals

Your superannuation account balance comprises different components. These components are determined by your eligible service period, the type of contribution made and the date the contribution was made.

Lump sum and pension benefits paid from a taxed superannuation fund at age 60 or over will be tax-free. These payments will be classified as non-assessable, non-exempt income

and clients will not have to include them in their annual tax returns. However, the tax components must be tracked to cater for superannuation death benefits paid to non-tax dependants.

For individuals under the age of 60, there are tax consequences on withdrawing amounts from superannuation, depending on the components which make up your benefit.

Component	Tax treatment of lump sum withdrawals	Tax treatment of pension investments
Tax Free	Tax free Note: The Tax Free component will generally be based on a proportion of the total benefit at the time each payment is made.	Tax free Note: While the Tax Free component will generally be a fixed proportion of each income payment based on the purchase price at commencement, certain pensions started before 1 July 2007 will continue to have a tax free Deductible Amount.
Taxable	<ul style="list-style-type: none"> • If under age 55, taxed at 21.5%* • If aged 55 to 59, the low rate cap (\$150,000 for 2009/10 – see below) is tax-free and the balance is taxed at 16.5%* 	Taxable at marginal rate, less 15% pension offset (if aged 55 to 59)

* Includes a Medicare levy of 1.5%.