

# The Guardian

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*"Keeping you informed"*

## **Super Strategies**

I recently spent a couple of days in Melbourne attending a seminar discussing the recent changes to Superannuation and some practical tax effective strategies utilising Superannuation, in particular, Self Managed Super Funds. So this newsletter will have a focus on Superannuation and how you can take advantage of the most recent changes to Superannuation.

As a general rule, I'm actually not a big supporter of making extra payments to your superannuation fund until you reach 35-40 years of age. Prior to this age, the compulsory 9% employer SGC and the Government Co-Contribution should be a sufficient amount to contribute to super. I believe that any additional money can be utilised in a more effective manner, such as paying down non-deductible debt like your home loan, personal loan & credit cards. For the average person earning between \$34,000 and \$80,000 per year, paying down your home loan that has an interest rate of 8% is equal to receiving an investment return of 11.5%, and that is guaranteed. And, although Superannuation is only taxed at 15%, that is only a 16.5% reduction in tax for most people, and there are many strategies to access similar or lower tax rates outside Superannuation, such as family trusts. Once you have reached the stage in your life when it is beneficial to consider boosting your Superannuation, then Superannuation can become a valuable and tax effective method to invest and save tax.

## **Government Co-Contribution**

The best way to contribute to superannuation is still to contribute \$1,000 per year to access the Government Co-Contribution, if you're eligible. The lower threshold is currently \$30,342. This means that if your assessable income & reportable fringe benefits (AIRFB) are at or below this amount then the Government will contribute \$1.50 for each \$1.00 that you contribute, up to a maximum \$1,500 government contribution. If your AIRFB is \$60,342 or above then unfortunately you are ineligible. If your AIRFB is between \$30,342 & \$60,342 then the Government contribution will reduce by 5% of the amount above \$30,342. It is a requirement that your contribution is an after tax contribution, meaning that it is not a salary sacrifice or tax deductible contribution.

The power of compounding is massively accelerated using the co-contribution scheme. If you contribute \$1,000 per year for 10 years then you could expect to have a superannuation balance of over \$39,000. Without the co-contribution it would be about \$15,000. So the Government is giving you \$14,000 for free, you can't beat that. Over 30 years the balance would be \$305,000, of which you only contributed \$30,000!

## **Investment Company Director Contributions**

Previously a passive investment company could not make superannuation contributions on behalf of the Directors because Directors did not meet the definition of "Employee". This discrepancy has now been rectified and Directors are regarded as employees for superannuation purposes. To enable a superannuation deduction the company simply needs to pass a shareholder resolution approving remuneration of the Directors.

## **Excess Contributions Trap**

Although the recent changes are designed to make superannuation more attractive, there are limits to how much can be contributed, even for after tax contributions. The current un-deducted contribution limit is \$150,000 per year or \$450,000 over 3 years. The deducted contribution limit is \$50,000 for under 50's and \$100,000 for 50 and over. Although the Super Fund can accept excess contributions, the tax penalty for contributing in excess of these amounts can be as much as 93%! So it is important that care is taken to ensure that the limits aren't exceeded.

### **Tax Deductible Self Managed Super Fund Setup**

The cost to establish an SMSF for a business is deductible over 5 years, and the GST can be claimed entirely.

### **Self Employed Tax Deduction**

A Self Employed person is now entitled to claim a 100% tax deduction for super contributions of up to \$50,000 if you're under 50, or \$100,000 for over 50's. To be eligible for this tax deduction there are two main requirements. Firstly, you need to have less than 10% of your total assessable income & reportable fringe benefits from employment. And secondly, you must notify your super fund in the correct form that you are claiming a tax deduction for the amount. It is also vital that you receive written confirmation from the super fund.

### **Is Superannuation Safe?**

It is important to remember that a Superannuation Fund is simply a tax effective investment vehicle, not an investment in itself. So it is not simply the Superannuation Fund itself that should be analysed, but where your funds are invested. A Super Fund is generally able to make any type of normal investment so you should consider your own risk appetite before deciding upon which asset class/es your money should be invested in.

#### **2008/2009 Kids' Tax Free Threshold**

Due to the increase in the Low Income Tax Offset to \$1,200, the effective tax free threshold for Minors is now \$2,666. This is of most benefit to family trusts. A family trust with 3 children can now distribute \$7,998 tax free, a tax saving of up to \$3,719!

### **55-60 and still working? Take a pension**

There is a good strategy available to both reduce your tax and boost your Superannuation if you are between 55 and 60 and still working. By taking a "Transition to Retirement Pension (TRP)" you will be drawing down an amount of superannuation which is taxable, but by salary sacrificing or otherwise claiming a tax deduction for super contributions you will be reducing your overall tax liabilities. An example will illustrate this. Let's take John, he is 56, employed and earns an annual salary of \$60,000. He decides to Salary Sacrifice into his Super & take a TRP from his Super.

#### **John without a TRP**

Salary	\$60,000
Tax	\$12,810

Take Home Pay	<u>\$47,190</u>
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#### **John with a TRP**

Salary	\$60,000
Salary Sacrifice	\$23,526
Tax	\$5,399

Tax Home Pay	\$31,075
Super Pension	\$19,300
Tax on Pension	\$3,185

Net Take Home Pay	<u>\$47,190</u>
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So as you can see from this example John has saved tax of \$4,226. But, we need to remember that Salary sacrifice contributions are taxed in the Super fund at 15%. So the real tax savings are only \$697. But the other hidden benefit here is that John's Super fund balance will increase because it will not have to pay tax on the earnings from the assets used to fund the pension. This tax saving would be over \$2,000 per year. So, by a simple restructure of John's affairs he is able to boost his Super Fund by over \$2,700 per year and retain his same take home pay.

### **Do you carry tools or bulky equipment for work?**

If you carry bulky equipment such as a ladder or tools weighing more than 18 kilograms to and from work, you can claim your car expenses as a tax deduction. You are not entitled to claim this if your employer provides you with your own secure locker. But, a container on a building site where more than one person has a key is not considered a locker so most people in the building trade would qualify for a deduction.

### **The Global Money Meltdown**

*It has certainly been a volatile and uncertain time in the markets lately, so it is important during these times to step back from the media hype and look at the "Big Picture". With this in mind, I have included a copy of the "Economic Clock", which is a graphic illustration of the "Normal" Economic Cycle and can give us some valuable insight as to where the economy is currently at, in the cycle. Although the Economic Clock is not designed to scale or advice on where to specifically invest, it is an important concept to understand, importantly that the economy always moves in cycles and markets will improve.*

*On a more practical note, there is no denying that credit has become more expensive and harder to source, and the US downturn will have some measure of flow on effect to our economy, albeit distributed unevenly. So, it is especially important to review your current situation and future plans and how you intend to achieve your goals. For small business, in these approaching times of economic uncertainty, the saying "Cash is King" is even more appropriate, and strong businesses will not only survive any downturn but come out the other side stronger, more sustainable and more profitable.*

*It is at these times that astute investment & business decisions make you the most money, so don't just follow the crowd, look past the smoke and see the fundamentals.*

# THE ECONOMIC CLOCK

