A Plan to Simplify and Streamline Superannuation

Key Changes

- Where are we?
- Contributions to Superannuation
- Withdrawals from superannuation
- Superannuation components
- Estate planning using superannuation
- Strategies to implement before 1 July 2007

The journey so far

- 9 May 2006 Budget night
  - Release of “A plan to simplify and streamline superannuation
- 5 September 2006
  - Outcomes of consultation
- 7 December 2006
  - Introduction of first Bill into Parliament
- Passage of legislation still going

Contributions to superannuation

- Self-employed

  Full deduction on superannuation contributions to age 75

  Eligible for co-contribution

- Employers

  Full deduction for superannuation contributions employees

  Deductible contributions for employees up to age 75

- Strategy considerations

  Ability for employees aged 70 – 75 to enter salary sacrifice arrangements

Contributions to superannuation

- Concessional contributions
  - Deductible contributions of $50,000 for all taxpayers
  - Limit applies to contributions where a deduction is claimed
  - Excess amounts taxed at 46.5%
  - Transitional rules for people aged 50 and over
    - $100,000 until 2011/2012 financial year
- Strategy Considerations
  - Allows younger people to contribute a greater amount earlier
  - Salary sacrifice still valuable strategy

Contributions to superannuation

- Non-Concessional contributions

  Capped at $150,000 a year

  Averaging over a 3 year period allows larger payment – for those under age 65

- Strategy considerations

  Averaging provisions could allow larger one-off payments

  Excess non-concessional taxed at 46.5%

- Transitional rule

  $1 million of undeducted contributions until 30 June 2007

Withdrawals from superannuation

Age 60 or older

- Taxed schemes
  - Lump sums and pension payments tax free
- Untaxed schemes
  - Lump sum $1,000,000 taxed at 15%
  - Pension taxed at MTR with offset of 10%

- Strategy considerations
  - Defer retirement until after age 60

Withdrawals from superannuation

- Reasonable Benefit Limits

  Abolished from 1 July 2007

  No excess benefit tax

- Strategy considerations

  Benefits clients with existing significant super savings

  Types of income streams used prior to changes

  Review level of insurance within superannuation

Staying in superannuation

No compulsory cashing requirement

No work test to remain in accumulation phase

Strategy considerations

Greater flexibility on when to draw superannuation

Estate planning issues – tax if paid to non dependants

Components

- Simplified superannuation components

Existing components	From 1 July 2007
Pre-July 1983 Undeducted Concessional Post-June 1994 invalidity CGT retirement exemption Excessive	Exempt
Post- June 1983 Non-qualifying amount	Taxable

Estate Planning

- Death benefits tax free to financial dependants
  – from 1 July 2007 as RBLs abolished
- Super law definition of dependant
- Limitations on ability to pay income stream to non-financial
- Strategies
  - ETP to tax dependants who gift to non tax dependants
  - Recycle strategies – changing components

- Pay a pre-death benefit ETP:
  - Tax free for over 60s and payable to anyone (grandchildren, estate, etc)
    - Terminal illness members
    - Beneficiaries not ‘tax dependants’ at death

Strategies to Implement Prior to 1 July 2007

Contributions to superannuation

- Transitional rule
  - $1 million of undeducted contributions until 30 June 2007
  - Now is the opportunity to take advantage of higher cap

- Sources
  - Unexpected gain
    - Inheritance
    - Winnings
    - Bonus
  - Sale of assets
    - Shares
    - Property

But can I contribute to superannuation?

- Eligibility to contribute

Under age 65	Can contribute
65-74	Satisfy work test
75+	No further contributions

Boost exempt component from 1 july 2007

- Boost pre-1 July 1983 component
- Achieve by
  - Consolidating superannuation funds
  - Increasing UDCs
- From 1 July 2007
  - Pre-July 1983 component forms part of exempt
- Benefit – increase tax-free amount

Boost 1 july 1983 component

- Sue has two superannuation account. How much will pre-1 July 1983 component increase by if the accounts are consolidated?

	Pre component	Post component
Fund A	$17,500	$32,500
Fund B	Nil	$200,00

	Pre component	Post component
Combined	$87,500	$162,500

Double deduction strategies

- Seek double deduction while age based limits last
  - Substantially self-employed individuals
  - Employees younger than 70 working for unrelated companies

Example

- John, age 51, works for two unrelated companies
- Both employers can contribute up to John's age based limit of $105,113 for 2006/07

Isolating components

- From 1 July 2007 components are taxed and exempt
- Components must be taken proportionally
- Proportions set at commencement of an income stream
- Ben has superannuation fund consisting of post and UDCs only. He intends to commence an income stream on 1 July 2007. He has no financial dependants.
- Isolate post and UDCs in separate fund now

Example

- John aged 56 and Retired
- Planning to commence a pension on January 1 2008
- Currently living off existing capital
- $570,000 in Super
- $50,000 Undeducted contributions
- Commencement date January 1 1975

Example cont.

- Benefits at June 1 2007
- Pre July 1 - 1983 $149,283
- Post June 30 1983 - $370,717
- Undeducted - $50,000
- Total Benefit - $570,000

Example cont.

- John could withdraw a maximum of $251,443 including his undeducted contributions
- If he made the withdrawal on July 1 2007, the maximum he could withdraw would be $215,087 based on the new proportioning rule
- Additional funds of $36,356

What next?

- Change brings opportunities
  - Certain strategies to be implemented before 1 July 2007

- Speak to your adviser