

Current Issues with Self-Managed Superannuation Funds

Friday, 22 June 2012



Agenda

- 1. The Changes: What have the Government done to us?**
 - 1. Excess Contributions Tax**
 - 2. Reduced Contribution Caps**
 - 3. Co-contributions and LISC**
 - 4. The New Surcharge**
- 2. Superannuation Revisited: What benefits remain?**

Assumption

- I am assuming that most of you have a SMSF, and are generally familiar with how they work.
- If this is not the case, please let me know....

Excess Contributions Tax

- Has now been with us for several years,
- But problems continue to surface
- For example.....

Case Study 1

- Bill is 55, and earns a good salary.
- He likes to put the maximum possible amount into super, and salary sacrifices to \$50,000 each year



DAWSON & PARTNERS
FINANCIAL SERVICES

Case Study 1

- In 2011, he received an inheritance of \$600,000, and after some research, decides to contribute the following after tax amounts:-
 - ◆ \$150,000 in 2010/11
 - ◆ \$450,000 in 2011/12
 - ◆ He is really pushing superannuation to the maximum!

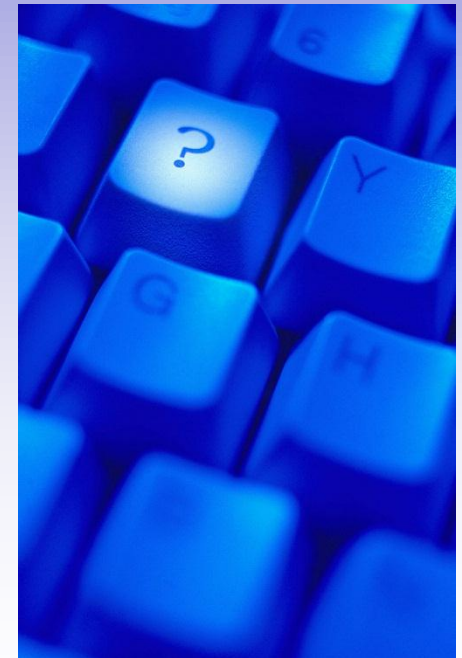
Case Study 1

- However, because there was one extra pay period in 2010/11, it later turns out that Bill's employer contributions totalled \$50,010
- \$10 over the limit.



Case Study 1: Question

- Under the excess contributions tax rules, roughly how much penalty tax does Bill have to pay?
 - ◆ A. \$3
 - ◆ B. \$100
 - ◆ C. \$2,500
 - ◆ D. \$70,000



Case Study 1

- Answer is D. – roughly \$70,000
 - ◆ Excess concessional contributions tax in 2010/11 = $\$10 \times 31.5\% = \3.15
 - ◆ But extra \$10 is also added to the non-concessional amount, making \$150,010 for 2010/11, which triggers the 3 year limit of \$450,000

Case Study 1

- So when \$450,000 is contributed in the following year, the total is $\$450,000 + \$150,010 = \$600,010$
- This is \$150,010 above the \$450,000 limit
- Excess NCC tax is $\$150,010 \times 46.5\% = \$69,754$
- Plus \$3 from previous page = \$69,757!

Case Study 1

- This can happen in several different ways!, e.g.
 - ◆ Personal contributions not claimable because income is low
 - ◆ Insurance premiums which are actually super contributions
 - ◆ “Notional” contributions from defined benefit government funds

Case Study 1

■ Lessons to take away:-

- ◆ Keep careful records of what goes into super each year
- ◆ Don't try to push it to the absolute maximum
- ◆ Be especially careful if using the \$450,000 "bring forward"
- ◆ Take advice if in doubt!



Reduced Contribution Caps for over 50's

- If you are 50+, you can deduct (or salary sacrifice) up to \$50,000 in 2011/12,
- But for 2012/13, this reduces to \$25,000 for everybody!
- There were proposed relief measures, but these are **not** happening, and may never happen!

Reduced Contribution Caps for over 50's

- This requires prompt action if you, or your employer are making regular monthly or fortnightly contribution payments.
- It is only a week away!
- Remember the case study!



Co-Contribution and Low Income Super Contribution (LISC)

- In the current year (2011/12), those earning less than \$61,920 can contribute extra after tax amounts to super, and receive the Government Co-contribution on a dollar for dollar basis.
- When adjusted taxable income is less than \$31,920 up to \$1,000 can be received.

Co-Contribution and Low Income Super Contribution (LISC)

- In the next year (2012/13), this becomes considerably less attractive:-
 - ◆ Nothing if income is above \$46,920
 - ◆ Contribution rate is halved to 50 cents in the dollar
 - ◆ Maximum amount reduced to \$500

Co-Contribution and Low Income Super Contribution

- BUT – if your income is less than \$37,000, you will also get the LISC!
- Calculated as:-
 - ◆ Concessional contributions x 15%
 - ◆ On a maximum contribution amount of \$3,330 (\$37,000 x 9%) each year
 - ◆ So maximum LISC = \$500
 - ◆ Those on lower incomes, can salary sacrifice up to \$3,330 and still get the full \$500

Co-Contribution and Low Income Super Contribution

Adjusted Taxable Income	\$25,000	\$37,000	\$40,000	\$50,000
Contribution Required	\$1,000	\$662	\$462	\$0
Maximum Co-Contribution	\$500	\$331	\$231	\$0
LISC	\$338	\$500	\$0	\$0
Total Government Contributions	\$838	\$831	\$231	\$0

The New Surcharge

- This was announced prior to the recent Federal budget, but there is no legislation at present
- Involves increase in contributions tax from 15% to 30% for people with incomes greater than \$300,000



The New Surcharge

- It is likely that “income” will be subject to a special calculation, and will definitely include the adding back of super deductions,
- Fringe Benefits and Negatively geared investments may also be added back
- Will be difficult to avoid, so higher earners are likely to avoid super for tax planning

Case Study 2

- Julia is a high income earner, who gets:
 - ◆ Salary \$265,000 p.a.
 - ◆ Vehicle \$25,000
 - ◆ Superannuation \$25,000
 - ◆ Total Income for “surcharge” purposes = \$315,000



Case Study 2

- She exceeds \$300k threshold by \$15k
- Tax payable by her super fund will be:-
 - ◆ Normal contributions tax $\$25,000 \times 15\% = \$3,750$
 - ◆ Plus additional tax $\$15,000 \times 15\% = \$2,250$
 - ◆ Tax payable by fund has increased from \$3,750 to \$6,000 (+60%)



Conclusions

- What has the Government done to us?



DAWSON & PARTNERS
FINANCIAL SERVICES

Conclusions

- For those earning lower incomes, not much has changed.
- Lower paid employees who do not contribute anything extra to super will get a handout in the form of the LISC
- Up to \$500 p.a

Conclusions

- For those on middle incomes, again not much is different,
- Access to the Government co-contribution is now less attractive,
- (or unavailable if $ATI > \$46,920$)

Conclusions

- But if you're not using the co-contribution,
- And your income is less than \$300,000 p.a., and you are regularly contributing, say \$10k to \$25k each year to super:
 - ✓ It is business as usual



Conclusions

- If you are a high income earner:-
 - ◆ 50+ years old and making large contributions, or
 - ◆ Earning > \$300,000
- Then superannuation is not as effective at it was, in managing that income

Conclusions

- But for funds which are already in the superannuation system, these changes will have very little effect:-
 - ◆ The tax rate is still 15% in accumulation, and 0% on pension accounts,
 - ◆ Pensions are still tax-free if you are 60+
 - ◆ And there is a Federal Election next year!

Conclusions

- Superannuation still makes good sense as a vehicle for your investments!



Questions?



DAWSON & PARTNERS
FINANCIAL SERVICES