SUPERANNUATION

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Using superannuation as a savings vehicle is a tax-effective way to increase your savings to meet your retirement goals.

BENEFITS

- Contributions into superannuation can be tax-effective, particularly if made under a salary sacrifice arrangement or if the contributions are tax deductible, because the contributions are effectively being made with pre-tax money.
- A special concessional rate of tax applies to superannuation fund earnings whereas earnings from non-superannuation investments are generally taxed at marginal tax rates which may be typically higher.
- Superannuation money is tax-free if withdrawn after age 60 (unless withdrawn from an untaxed fund).
- Superannuation can be used to provide a tax-effective income stream in retirement.

HOW IT WORKS

Superannuation is a savings vehicle designed to help you save for retirement. Superannuation funds that comply with Australian law receive generous tax concessions which provide an incentive for you to save for your own retirement. Your account balance generally consists of contributions from your employer, your own personal contributions and earnings from investments.

Most superannuation funds will allow you to select how your money is invested and will usually offer a selection of investments based on local or international shares, property and or fixed interest. As different asset classes offer different levels of risk, it's important to choose wisely and get advice.

CONTRIBUTIONS

Eligibility to contribute to superannuation is based on your age. Anyone under the age of 65 is automatically eligible to contribute, but between ages 65-75 you must meet a work test or meet the work test exemption. Once you reach age 75, contributions generally cannot be made unless the contributions are mandated employer contributions required under an agreement or award.

Contributions to superannuation are split into categories with caps applying to each category. The most commonly used caps are the concessional contribution cap and the non-concessional contribution cap. A capital gains tax cap is also available to small business owners who sell eligible business assets.

The caps are intended to limit the amount of tax concessions relating to superannuation and to encourage people to save for retirement over a lifetime rather than only in the few years prior to retirement. Contribution caps are indexed periodically.

CONCESSIONAL CONTRIBUTIONS

There is a cap on the level of concessional contributions that can be made each year.

Concessional contributions generally consist of contributions made from pre-tax income (such as Superannuation guarantee (SG) and salary sacrifice) contributions for which a deduction has been claimed (personal deductible contributions).

If you exceed your concessional contribution cap, tax and interest penalties will apply.

If you don't use the full amount of your concessional contribution cap you can carry-forward the unused amount and take advantage of it up to five years later.

Carry-forward contributions are calculated on a rolling basis over five years, but any amount not used after five years expires. These carry-forward rules only relate to concessional contributions into superannuation, not non-concessional contributions, as they have different caps.

CONCESSIONAL CONTRIBUTION TAX FOR HIGH INCOME EARNERS

If your 'income' is above the high income threshold, some or all of you concessional contributions will be subject to additional tax.

'Income' includes:

- taxable income (including the net amount on which family trust distribution tax has been paid)
- reportable fringe benefits
- total net investment loss (including net financial investment loss and net rental property loss)
- non-excessive concessional contributions.

Additional tax applies to any non-excessive concessional contributions that result in your 'income' exceeding the threshold during a financial year.

NON CONCESSIONAL CONTRIBUTIONS

Non- concessional contributions generally consist of contributions from after-tax income, such as personal non-deductible contributions and spouse contributions.

There is a non- concessional contribution cap and a maximum bring forward limit that needs to be considered when making non- concessional contributions.

Excess non- concessional contributions and associated earnings (as calculated by the Tax Office) are subject to penalty tax on earnings, applied at the highest marginal tax rate paid from superannuation, if the funds are not withdrawn.

BRING FORWARD RULE

If you are under age 65 on 1st of July in a financial year and have a balance of less than the transfer balance cap, you may be able to trigger the 'bring-forward' rule to make larger contributions. This rule is particularly useful if you are selling a large asset (such as an investment property) and want to contribute the proceeds into superannuation.

The 'bring-forward' rule effectively groups non- concessional contributions made over a three year period. It allows you to bring forward two years' worth of non- concessional contributions and add it to the current year's cap. The bring-forward rule is automatically triggered if you exceed your annual non- concessional limit. Once triggered, your non- concessional contribution cap will not be indexed for the next two years.

The amount of contributions you are able to make under the bring forward rules will depend on your total superannuation balance and potential legislative changes over time.

CONDITIONS OF RELEASE

To access your superannuation account balance you first need to meet a condition of release.

You will automatically meet a condition of release once you turn age 65. Prior to age 65, you can meet a condition of release if you (a) cease a gainful employment arrangement after having turned age 60 (even if you are still working in another job), or (b) retire after having reached your preservation age.

In very limited circumstances a condition of release may be met before age 65 or retirement These circumstances include being temporarily or permanently disabled, being in severe financial hardship or on compassionate grounds (e.g. to pay for medical costs).

WHAT YOU NEED TO CONSIDER

- It is important that you keep track of your superannuation contributions to ensure you don't exceed your contribution caps.
- Superannuation may not provide a better after-tax rate of return than non-superannuation investments if your marginal tax rate is less than the superannuation tax rate on earnings.
- All contributions to superannuation are preserved until you meet a condition of release.
- Fees may be charged for your superannuation contributions and on transfers between funds. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- The government may change superannuation legislation in the future.

REFERENCES

You may wish to refer to the following web sites for further information about the types of contributions you may be able to make into superannuation:

- www.ato.gov.au
- www.moneysmart.gov.au

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