Messenger Zerner
Chartered Accountants

TECHNICAL GUIDE NO 5

SUPERANNUATION STRATEGIES NO 1

The following are some tips to maximise the benefits of superannuation:-

1 ***Should I invest into superannuation or pay off business and personal loans first?***

This depends on the after-tax rate of return/cost of each alternative. An example may help to illustrate:

	Super	Personal Home Loan	Business Loan
Assumed earning rate / cost	7.0%	6.0%	7.5%
Less tax effect	(15%) 1.0%	0%	(30%) 2.2%
Net after tax return / cost	6.0%	6.0%	5.3%

If the superannuation fund can earn at least 7.0% then the example shows that it is better to invest in superannuation rather than repay loans. However, in some situations it may be better to repay the home loan first. In general, it is always advisable to be contributing some money into superannuation as well as making loan repayments, as a method of forced saving for retirement.

2 ***Should we set up our own super fund?***

Careful consideration should be exercised when considering setting up a new self-managed super fund. Factors to take into account include your age and financial situation. Setup and ongoing costs are another consideration. A rough estimation of these costs is summarised in the following table:

Set up cost – trust deed and other documentation including statement of advice	$ 2,200
Ongoing costs:- - Accounting and tax return fee - Audit fees - Lodgement fee – annual return	 $2,000 $1,200 $ 259
	$3,459

These costs depend on the number of transactions and investments held in the fund. We generally recommend that the fund should have assets of at least $250,000 to make it cost effective.

An example shows the effect of the size of the fund on the net rate of return:-

Fund Assets	$50.000	$250,000
Earning rate	8%	8%
Gross Income	$4,000	$20,000
Less Operating Expenses (as above)	$3,459	$ 3,459
Net Income	$541	$16,541
Net Return	1.1%	6.6%

In addition, the income earned in the fund on assets used to pay an allocated pension does not attract income tax, e.g. capital gains on shares held for many years in a superannuation fund can become tax free when realised in an allocated pension environment.

3 As an employee, can I contribute to superannuation over and above the superannuation guarantee levy?

Yes, there are two options available. One is to use a salary sacrifice arrangement providing your employer can, and is willing to, handle the administration aspects. For example if the employee salary package is $70,000, the employee could nominate that $15,000 be paid directly into a superannuation fund. The payment summary is issued for the balance of $55,000. Therefore the $15,000 is effectively a "deduction" against the gross package of $70,000. The effective saving is the difference between the employees marginal rate of 34.5% (including medicare), whereas the superannuation fund would pay tax of 15% on the contribution.

The second option became available from 1 July 2017 where employees can now claim a personal tax deduction on super contributions made with after-tax income. Employees should be mindful that the total contributions cannot exceed the concessional cap of $25,000 (i.e. the 9.5% super guarantee + salary sacrifice + personal contributions).

4 Can I purchase insurance within my superannuation fund?

Purchasing life insurance within your superannuation fund can be a tax effective way of providing you with risk cover. In the event that the insurance policy is activated, the fund may benefit from improved liquidity, estate planning options, and concessionary taxed benefits to dependants.

Individuals cannot claim a personal income tax deduction for the cost of life insurance premiums. Consequently, the premiums can be almost halved by providing the insurance through a superannuation fund. This is achieved by claiming an income tax deduction for contributions to a superannuation fund which funds the purchase of insurance.

It is important to consider the taxing of any proceeds on the payout of the policy in the superannuation fund.

The proceeds are tax free if paid to dependants where as it may attract tax of up to 15% if paid to non-dependants.

5 Is it better to pay surplus savings into superannuation or invest it elsewhere in say shares or property?

Lump sum surplus savings can be paid into superannuation funds as "undeducted contributions" i.e. with no tax deduction. The investment earnings on these funds will only be taxed at 15% compared to the top tax rate of 46.5% if the savings were retained in an individual's name.

However, the amount contributed must be retained in the superannuation fund until certain conditions of release have been met. Common conditions are retirement or reaching the preservation age, which is 55 years of age for those born before 1 July 1960. The payments of a large undeducted contribution into a fund close to retirement can also significantly reduce the post 1983 component of a lump sum payout. It is important to maintain some investments outside of superannuation to provide some immediate accessibility to funds which may not be possible via superannuation.

6 *Are there any other government announcements that I should be aware of?*

Included in the May 2017 budget were two reforms applicable to those on either end of the home ownership spectrum.

For those that are considering purchasing their first home, the government established a **First Home Super Saver Scheme** which comes into effect from 1 July 2017. Eligible individuals can make a maximum contribution comprising either pre-tax or after-tax contributions of $15,000 per year (subject to contributions caps), whilst the maximum savings amount is $30,000.

By utilising a salary sacrifice arrangement with your employer, it is possible have the earnings otherwise taxable at the individuals marginal tax rate to be taxed concessionally within the fund at 15%. It must also be noted that tax is applicable on the funds once with drawn however a 30% tax offset is applied. So for example, an individual that has a marginal tax rate of 34.5% would have a tax rate of 4.5% applied on the withdrawn funds. Withdrawing the savings is conditional on putting them towards purchasing a first home.

Conversely, for those over 65 years of age, after-tax contributions can be made on the proceeds from the sale of their main residence called **downsizer contributions**. These contributions can be up to $300,000; couples will be able to contribute up to $600,000; conditional on the home being owned for at least 10 years. It is important to note that these contributions are not limited by the $1.6 million total super balance cap, but those that have $1.6 million in pension funds must keep the contribution in an accumulation account which attracts a 15% tax rate. Contrary to the name, it is not necessary to buy another home, nor is it a requirement to buy a smaller house.

This may be particularly attractive for retirees who haven’t had the opportunity to save sufficient funds for a comfortable retirement and would like to make a top up to enjoy the beneficial superannuation tax environment.