Messenger Zerner
Chartered Accountants

TECHNICAL GUIDE NO 6

SUPERANNUATION STRATEGIES NO 2

Superannuation continues to be an important tax saving strategy that also provides increased investment balances for use in later years of life. Here is a summary of the current opportunities available to minimise tax.

1 Contributions

The age based contribution deduction limits from 1 July 2017 are as follows:

	Deductible	Undeducted
Age over 50 years	$25,000	$100,000
Age less than 50 years	$25,000	$100,000

Individuals under age 65 regardless of whether they are working, can make contributions. However, for individuals aged 65 to 74, contributions can only be made if they work 40 hours in a period of 30 consecutive days in each financial year.

For taxpayers under age 65, it is possible to bring forward 3 years of undeducted contributions which amounts to $300,000 in one year, but after age 65 only $100,000 per year is allowable (provided the work test is passed).

Effective 1 July 2017, the government introduced a $1.6 million transfer balance cap which limits the amount of super that can be transferred into retirement/pension phase. The bring-forward period for individuals who meet the above criteria now varies depending on what the fund member's total superannuation balance was at the end of 30 June in the previous financial year. Note that the transfer balance cap only applies to a member's pension balance as distinct from the total superannuation balance which includes ALL member balances (pensions and accumulation balances).

The following table summarises the non-concessional contribution (NCC) (undeducted) cap amounts available for the 2018 income year.

Total Superannuation Balance on 30 June 2017	NCC for the 2018 (first) income year	Bring forward period
Less than $1.4 million	$300,000	3 Years
$1.4 million to less than $1.5 million	$200,000	2 Years
$1.5 million to less than $1.6 million	$100,000	N/A
$1.6 million or more	Nil	N/A

The current contribution rules provide opportunities for employees to either salary sacrifice part of their salary into superannuation or make personal deductible contributions from after tax income. The tax saving can be as high as 32% depending on the marginal tax rate applicable to the sacrifice, e.g. the marginal tax rate saving of 47% is reduced to the contributions tax rate of 15%.

2 Payment of Benefits

From 1 July 2007, most benefits whether taken as a lump sum or pension are tax free for individuals aged 60 or over. This means that the benefits withdrawn will not need to be disclosed on personal tax returns.

Taxpayers over 60 years who are receiving a State or Commonwealth superannuation pension will still need to include the gross taxable income on their personal tax returns, but will receive a 10% rebate on the gross pension.

The less generous tax treatment of these pensions is due to the fact that they are paid from an untaxed fund, whereas other super funds have paid 15% tax on contributions and earnings.

For the 2017/18 year, many senior Australians may have earned less than the tax-free thresholds of $32,279 for a single or $28,974 for each member of a couple.

Depending on your other amounts of taxable income it may be possible to advise the Taxation Office that returns are no longer required for 2017/18 and future years.

Individuals under age 60 can still withdraw approximately $185,000 of superannuation lump sums tax-free but pension income will attract normal rates of tax less a 15% pension tax rebate.

Another strategy which has seen some major changes is the Transition to Retirement pension (TTR). This applies to taxpayers still employed between the ages of 55 and 65 and is used in conjunction with the salary sacrifice option. This means that the amount of pension withdrawn from the superannuation fund is replaced by additional contributions from the employee’s salary. Previously these pensions enjoyed a tax-free environment, but from 1 July 2017 will no longer be deemed to be “retirement phase” pensions and will subsequently be taxed at 15% similar to accumulation funds. Whilst the main advantage of TTR pensions has been eliminated, they are still useful for those looking to wind back their working hours whilst maintaining their income.

3 Superannuation Funds

All the above strategies lead to the conclusion that the superannuation fund is now becoming a major wealth creation and retirement planning entity. Many taxpayers are now setting up their own Self-Managed Superannuation Funds (SMSF) and transferring personal or trust investment assets to the fund to obtain the lower tax rates on the investment earnings and capital gains. The decision to set up a SMSF involves many issues and we recommend detailed discussions be undertaken with us before proceeding.