SUPERMATTERS

superannuation strategies for you and your business

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Messenger Zerner
Chartered Accountants

Early access to the rescue

Accessing your superannuation early is a short-term strategy Australians facing financial troubles can use to buy some temporary financial protection.

Withdrawing superannuation to buy some temporary financial protection is an option some individuals may turn to when faced with overwhelming financial burdens. However, there are limited circumstances when individuals can access their super savings early, and in most cases, individuals cannot withdraw their superannuation until they reach their preservation age and retire.

To access super early, Australians must first satisfy a condition of release, which allows immediate access to an individual's preserved benefits, provided the rules of their fund allow early super withdrawals. Some conditions of release include, but are not limited to:

Retirement

This is the most common condition of release. Super funds usually require a retirement declaration verifying that an individual has retired, and the individual must have reached their preservation age.

Reaching the age of 65

As soon as an individual turns 65 they can withdraw their entire superannuation benefit, even if they haven't retired (and don't plan to retire) from the workforce.

Start a transition-to-retirement pension

Individuals can access a portion of their benefit each year by starting a super pension without retiring. This only works, however, if an individual has reached their preservation age and withdraws less than 10 per cent of the account balance each year.

Severe financial hardship

Individuals can get some of their superannuation back if they satisfy the conditions that constitute the government's view of 'severe financial hardship'.

Compassionate grounds

If an individual suffers from a life-threatening illness or has fallen behind in overdue loan repayments before retiring, their super fund can release part or all of their preserved benefits. Individuals can also apply for early release of superannuation on compassionate grounds to pay for funeral or medical expenses, or palliative care. However, the conditions for release are limited and professional advice should always be sought if these options are being considered.

Permanent disability or incapacity

If an individual suffers from a chronic illness or serious disability, they may be able to claim on a total and permanent disability insurance policy. Individuals should check with their super fund first for the terms and conditions of insurance policies. Individuals may also access super benefits early if they suffer 'permanent incapacity'.

Temporary incapacity

An individual's super fund may automatically provide income protection insurance, or an individual may be able to apply for such insurance via the superannuation fund. Those who suffer from prolonged illness or disability can access this insurance cover and receive a regular income for up to two years.

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Super contributions for over 65s

A common issue that arises when an individual turns 65 is working out how much concessional and non-concessional amounts they can contribute to their super fund.

Generally, individuals can make voluntary concessional (before-tax) or non-concessional (after-tax) superannuation contributions up to the age of 74. Those who are aged 65 or over need to satisfy a work test if they intend to make super contributions. Anyone aged under 65 can make super contributions without needing to satisfy a work test.

If you're turning 65 soon, or are already in the 65-74 age bracket, here are some key points to keep in mind when contributing to your super.

Over 65s must satisfy a work test

Upon turning 65, individuals must satisfy a work test before they continue contributing to their super. Those aged between 65 and 74 can make super contributions if they are employed on a part-time basis. Individuals need to work for at least 40 hours in a period of 30 consecutive days in the financial year in which they plan to make a super contribution.

No more contributions after 74

Individuals who are aged 75 or over cannot contribute to a super fund. However, if an employee is still eligible, their employer must continue to contribute Superannuation Guarantee contributions beyond the age of 70 and over.

Tax deductions need taxable income

Individuals who intend to claim a tax deduction for concessional super contributions need to have an assessable income to justify the tax deduction. Assessable incomes include employment income, business income, or net rental income.

The 15% marginal tax rate

All tax-deductible super contributions and other concessional contributions are subject to 15% tax within a super fund. Therefore, claiming a tax deduction for super contributions may not be tax-effective if you are an individual who pays less than 15 cents in the dollar tax on your personal income.

Individuals must be 'gainfully employed'

A key term in the work test an individual aged 65 years or over must satisfy to make super contributions is that they must be gainfully employed. This means an individual must be employed or self-employed for gain or reward in any business, trade, profession, vocation, calling, occupation or employment. Gain or reward involves receiving a payment that is considered to be a salary, wage, fee, business income, commission or bonus in return for personal exertion.

The work test involves any paid endeavour

The work test for over 65s is satisfied when an individual's employment involves any

endeavour where they receive remuneration for their efforts. Individuals will need to confirm with the tax office whether their arrangements satisfy the work test rules.

Documenting gainful employment

Any income that an individual receives for gainful employment must be fully documented and declared for tax purposes.

The bring-forward rule

65s and over cannot take advantage of the bring-forward rule. The bring-forward rules allows individuals to make contributions representing both the current year's non-concessional cap, and the next two years' cap, in a single year.

Combining investment structures to boost family wealth

While family trusts and self-managed superannuation funds (SMSF) are popular options for those wanting more control of their family wealth, they are considered as two separate vehicles for increasing wealth.

When used in conjunction with each other, family trusts and SMSFs can provide a number of benefits for families, such as intergenerational transfer of wealth benefits, wealth creation, preservation and management, and tax-advantaged outcomes.

Quite a few superannuation tax advantages exist for accumulating investment wealth. SMSFs also provide members with a higher level of flexibility and control over their super. However, the money an individual accumulates in an SMSF is essentially under lock and key until they retire, and individuals are also limited in regards to how much they can contribute to their SMSF. Superannuation accounts must also be paid out upon death in most circumstances.

Family trusts, on the other hand, are quite simple to establish and operate, provide greater flexibility regarding how much can be placed into the trust, and are not subject to preservation. Family trusts provide the advantage of being able to hold a broader range of personal use assets, and can continue past a member's death (making them an attractive vehicle for intergenerational wealth transfer). Unfortunately, family trusts may not be as tax effective as super.

Individuals who use both a family trust and an SMSF can mould their financial affairs to benefit from the combination of investment structures.

Family trusts are particularly useful in the early stages of a family's wealth-building process. This is because many people may be hesitant to place money into superannuation due to the preservation requirements. This is where family trusts provide a tax-advantaged structure for a family's wealth creation.

When the older members of a family start considering their retirement options, the family's wealth can be moved from the family trust to the SMSF as extra discretionary contributions. Any extra wealth that cannot be recontributed to superannuation during or after retirement can be placed in the family trust.

Upon an SMSF member's death, the associated family trust will continue. Any family investments can be kept in place, and control can be passed on to the next generation. This benefit is not available solely through superannuation since it is designed to decrease throughout retirement, then be paid out upon death.