End of year superannuation strategies

The best time to prepare for the end-of-year is now. Despite recent market conditions, super is still the most tax-effective way to save for your retirement. Here are some tax-effective strategies that are suitable for a wide range of people and incomes. Talk to your financial adviser today about getting ahead of yourself in 2010.

1. Government Co-Contributions

What's the strategy?
You make a personal contribution to super and the government matches your contribution on a dollar-for-dollar basis, up to $1,000.

Who can use it?
To be eligible for the co-contribution you must make a personal contribution into a complying super fund by 30 June 2010. Your total income must be less than $61,920 and 10% or more of your total income must be from eligible employment, running a business or a combination of both. You must be under age 71 and have lodged your tax return.

Why you should use this
The co-contribution scheme is an effective way for eligible investors to boost their Super balance. Earnings are taxed at 15% rather than marginal tax rate of up to 46.5%.

2. Non-concessional Contributions

What's the strategy?

There is a cap on non-concessional contributions of $150,000 per year. If you were under 65 on 1 July 2009, you can contribute up to $450,000 in the current year, although this limits how much you can contribute in the next two years. Any contribution you make over your relevant cap is taxed at 46.5%.

If you turned 65 after 1 July 2009, you can still take advantage of these provisions this financial year, but if you make the contribution after your 65th birthday, you must satisfy the work test before making the contribution. If this applies to you, this will be the last chance you will have to make a large, non-concessional contribution to boost your retirement savings. If you are in this position, you may consider short-term borrowing to fund a contribution if you're waiting for an asset to sell or to receive proceeds.

Who can use it?

You can use this strategy if you were 64 or under on 1 July 2009 or you turned 65 in the 2009/2010 financial year and met the work criteria.

3. Concessional Contributions

There are limits on the level of concessional contributions that can be made each year. The current limit is $25,000 unless you are 50 or older, in which case your limit is $50,000. Amounts contributed above these limits will be taxed at an additional 31.5% and will count towards your non-concessional contribution limits.

Salary Sacrificing

What's the strategy?

Salary sacrificing involves diverting pre-tax dollars from your employment salary into a range of benefits. One of the most common forms of salary sacrificing is making pre-tax contributions into your super account. The benefits of this strategy are twofold.

Firstly, you'll be bumping up your super balance. Secondly, you reduce your tax liability. Instead of paying tax at your marginal rate, the amount you salary sacrifice becomes a taxable contribution received by the fund. The contribution (plus any income earned on the investment) is generally taxed at a maximum rate of 15%. And, once you turn 60, payments from your super fund are tax-free.

Who can use it?

Salary sacrificing can be used by most employees. You will need to check that your employer allows you to salary sacrifice. In addition to this, you must have an effective salary sacrifice agreement in place.

<u>Personal Deductible Contributions</u>

What's the strategy?

By making a personal deductible contribution to super, you can reduce your taxable income and therefore decrease your personal tax liability. If you have sold an asset during the financial year and realised a significant capital gain, you may also be able to offset any personal income tax that would have been payable on the capital gain.

Who can use it?

If you are self-employed, substantially self-employed, or under 65 and recently retired, you may be eligible to make a personal deductible super contribution. You should confirm your eligibility to make a personal deductible contribution with your financial adviser before actually contributing it.

4. Spouse Super Contributions

What's the strategy?

If your spouse's assessable income (including reportable fringe benefits) is less than $13,800 and you make a contribution to your spouse's super fund, you may be entitled to receive a tax offset. As this benefit is a tax offset, by implementing this strategy you can make a direct saving against your income tax liability.

Who can use it?

You may benefit from this strategy if you have a spouse on a low income and want to boost your partner's super savings whilst reducing your tax liability.

5. In-Specie Transfer to Super

What's the strategy?

If you hold allowable assets in your own name, you may consider contributing these assets into your super account. Under superannuation law there are a few personal assets that a member can contribute to their super account. These include listed securities, interest in a widely held trust and business real property. Where you hold an asset personally, the income is taxed at your marginal rate of tax. Benefits held within super are concessionally taxed at the super fund tax rate (a maximum of 15%).

Transferring an asset from your personal name into the name of your super fund will trigger a CGT event. Market performance over the past year has meant some assets have fallen in value. Transferring these allowable assets to your super fund now may result in a lower CGT impact.

If you are considering this strategy you need to be mindful of that contribution caps. The asset transfer will be treated as a contribution and measured against the relevant caps. If the value of your contribution exceeds the contribution cap, you will be charged penalty tax on the excess amount.

Where the asset being transferred is business real property, there is potential to access the small business provisions.

Who can use it?

You may benefit from this strategy if you have allowable assets, are eligible to make a contribution to super, have not exceeded the contribution cap and you wish to boost your accumulated super benefits.

6. Reviewing Pensions

What's the strategy?

The end of the financial year is always a good time to review your income stream position.

Minimum Pension Payments

The 50% reduction in the minimum pension payment has been extended to 2009/2010 as a result of the 2009 Federal Budget announcements. If you have already drawn your minimum pension amount, you can elect to receive no additional pension payments for the financial year. This will help to ensure you preserve the capital in your pension fund.

Transition to Retirement

If you are over 55 and still working, you could consider a transition to retirement strategy. This strategy has a number of benefits. There are tax incentives associated with moving benefits from accumulation phase to the tax-free pension phase plus the ability to combine a salary sacrifice arrangement with a transition to retirement income stream. In addition to this, you have the flexibility to reduce the hours you work and supplement your income by drawing a pension.

Who can use them?

You may benefit from these strategies if you:

- are 55 or older and have retired
- are 55 and still working
- have already started to draw a pension.

7. Gearing in Super

What's the strategy?

Given lower interest rates and the falls in many asset values, you may consider borrowing within super to invest. There are restrictions that apply to this strategy that must be adhered to.

Who can use it?

You must be comfortable with the concepts and the risks associated with gearing. You may benefit from this strategy if you would like to boost your super but are restricted by the contribution caps. But you must be confident that your superannuation fund can pay back the money it has borrowed. Given the risks involved with gearing and the rules and regulations that apply for gearing in super, we recommend that you seek advice from a financial adviser before considering any gearing strategy.

8. Prepaying Interest

What's the strategy?

If you borrowed funds to make an investment that will generate assessable income, you are entitled to claim a tax deduction for the interest payable on your loan. By pre-paying the interest for 2010/2011 on your investment loan now, you may be able to claim a deduction for that interest in your 2009/2010 tax return.

Who can use it?

You may benefit from this strategy if you borrowed money from an investment, or you are contemplating doing so before 30 June 2010. This strategy is especially tax-effective if your assessable income puts you in the top marginal rate of tax.