


Super Living

Strategies for superannuation

2007/2008





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Super is even more super

Superannuation is still one of the best ways to accumulate wealth and save for your retirement. The main reason, of course, is the favourable tax treatment.

When you invest in super, earnings are taxed at a maximum rate of 15%. A low tax rate means your money can grow faster than investments that are taxed at a higher rate.

Depending on your circumstances, there may be some other great incentives – like claiming a tax deduction for your own contributions or receiving a co-contribution from the Government.

Also, from 1 July 2007, generally all benefits received from a taxed super fund at age 60 or over will be tax-free.

However, to get the most out of superannuation you need to be 'super smart'. You need to understand how the rules work and use them to your advantage. You also have to keep up with the latest rule changes so you can take appropriate action.

In this booklet, we outline nine clever strategies that could help you achieve your lifestyle and financial goals. Each of these strategies has long-term implications, so by making the right moves now, you may benefit in the future.

This booklet serves as a guide only. To find out if a particular strategy suits your circumstances, we strongly recommend you see a financial adviser.

Important information

The strategies covered in this booklet assume the superannuation fund is a complying fund (see Glossary).

The information and strategies provided are based on our interpretation of relevant superannuation, social security and taxation laws as at 3 December 2007.

Because these laws change frequently, you should obtain advice specific to your own personal circumstances, financial needs and investment objectives, before you decide to implement any of these strategies.

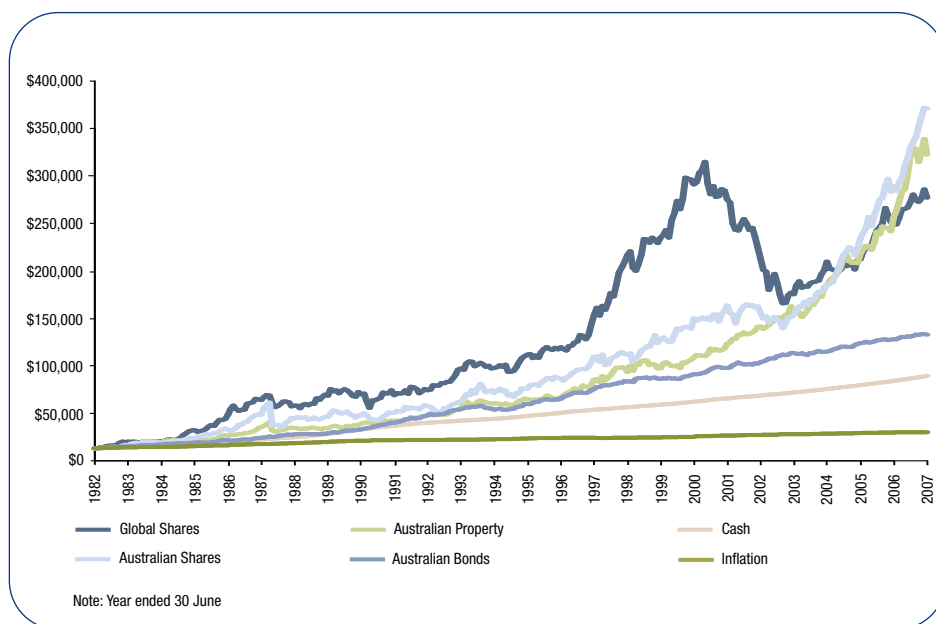
The investment returns shown in the following case studies are hypothetical examples. They do not reflect historical or future returns of any specific financial products.

Investment basics

Choosing the right mix of assets can make a big difference to your super

The graph below reveals growth assets, such as Australian and global shares and property, have delivered higher returns for investors over longer time periods (ie seven years or more). These asset classes have also been more volatile than cash and bonds over the short-term (ie one to three years).

Asset class comparison – \$10,000 invested



This comparison is based on historical performance and is not indicative of future performance. Future performance is not guaranteed and is dependent upon economic conditions, investment management and future taxation. Source data: Australian shares: S&P/ASX 200 Accumulation Index (All Ordinaries Accumulation Index prior to April 2000), Global shares: MSCI World Gross Accumulation Index (\$A), Property: ASX 200 Property Accumulation Index (Property Trust Accumulation Index prior to July 2000), Australian bonds: UBS Composite Bond Index – All maturities (Commonwealth Bank Bond Index prior to November 1987), Cash: UBS Bank Bill Index (RBA 13 Week Treasury Notes prior to April 1987), Inflation: CPI.

So ...

In most cases, you can't access your super until you retire (see FAQs on page 28). So if you don't plan to retire for another seven years (or more), you may want to consider investing a significant portion of your super in growth assets. But before you make your investment choice, you should also consider your goals, needs, financial situation and your comfort with market ups and downs.

To determine a mix of assets that suits your needs, you should speak to a professional financial adviser.

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Public offer superannuation

In a public offer super fund, a corporate Trustee takes care of all the fund's reporting, management, tax and investment responsibilities.

Public offer funds generally suit people who prefer to outsource the management of their superannuation or have smaller account balances.

The benefits

- You don't have to worry about the cost and legal hassle of setting up your own fund, or the ongoing responsibilities of running the fund.
- You can choose from a range of managed investment options and in some cases direct shares.
- Your investment receives concessional tax treatment.

Tips and traps

- While you can only invest in the options offered by the fund, a broad choice of investment options is usually available.
- Because the Trustee makes all the decisions in relation to the management of the fund, you can sit back and relax while someone else does all the hard work. Keep in mind this also means you typically have no say in the way the fund is managed.
- Some public offer funds offer reduced management fees for larger account balances.
- Most of the strategies in this book can be implemented through a public offer fund.

Self-managed superannuation

A self-managed super fund (SMSF) – also known as a DIY fund – has fewer than five members. All members are Trustees of the fund, and all the Trustees are members. If you set up a SMSF, you take on all the responsibilities of a Trustee.

SMSFs are generally more appropriate for people with larger account balances (upwards of \$250,000), who want to be actively involved in the management of their super.

The benefits

- Because you're a Trustee of the fund, you can exercise more direct control over the investment strategy.
- You have a choice of managed investments, direct shares and private assets such as direct property.
- Your investment receives similar concessional tax treatment to a public offer fund.

Tips and traps

- The secret to successfully managing your own super fund is to get expert advice. Don't try to do it all yourself.
- As Trustee of your own fund, you and the other Trustees are responsible for the administration of the fund and complying with regulatory requirements. This responsibility also applies to any tasks outsourced to third-party service providers.
- There are many costs involved in setting up your own fund, including establishment costs, legal costs, ongoing administration costs and investment costs.
- There are companies who can help you to set up and administer a SMSF.
- Most of the strategies in this book can be implemented through a SMSF.
- There are currently over 337,902* self-managed funds in Australia. To find out whether a self-managed fund is right for you, talk to your financial adviser.

* APRA Quarterly Superannuation Performance – March 2007.

*Superannuation is a long-term investment.
So it makes sense to invest it in assets that have
potential to provide higher long-term returns.*



Strategies at a glance

	Strategy	Suitable for	Key benefits	Page
1	Boost savings and minimise tax via salary sacrifice	Employees and employers	<ul style="list-style-type: none"> • Reduce income tax • Increase super benefits 	8
2	Divert cashflow from your home loan into super	Anyone with a home loan	<ul style="list-style-type: none"> • Use your cashflow tax-effectively • Increase super benefits 	10
3	Save more for retirement without reducing your income	Anyone aged 55 or older and still working	<ul style="list-style-type: none"> • Benefit from an income stream investment while you are still working • Increase your retirement savings 	12
4	Split your way to a better retirement	Couples	<ul style="list-style-type: none"> • Reduce tax on super benefits received before age 60 • Retain more of your super 	14
5	Top-up your super with help from the Government	People who earn less than \$58,980 pa, of which at least 10% is from eligible employment or carrying on a business	<ul style="list-style-type: none"> • Receive a Government co-contribution (up to \$1,500) • Increase super benefits 	16
6	Purchase life and TPD insurance tax-effectively	Employees who are eligible to salary sacrifice, people who are eligible to receive co-contributions, couples where one partner earns a low income and self-employed people	<ul style="list-style-type: none"> • Reduce the cost of insurance premiums • Purchase more insurance cover 	18
7	Move assets into super and minimise tax	Anyone who wants to transfer certain assets into super (restrictions apply)	<ul style="list-style-type: none"> • Reduce tax on earnings • Increase super benefits 	20
8	Contribute to super and offset CGT	Anyone selling an investment who is eligible to make tax-deductible contributions into superannuation	<ul style="list-style-type: none"> • Save CGT • Increase super benefits 	22
9	Convert business capital into tax-free retirement benefits	Small business owners planning for retirement	<ul style="list-style-type: none"> • Save CGT • Increase super benefits 	24

Boost savings and minimise tax via salary sacrifice

It's a well-documented fact – we all need to take responsibility for funding our retirement. So if you are looking for a simple and tax-effective way to boost your retirement savings, you may want to consider a strategy known as salary sacrifice.

Salary sacrifice involves getting your employer to contribute some of your salary, wages or a bonus payment directly into super – before tax is deducted at your marginal rate (which could be up to 46.5%^{*}). The advantage of this is salary sacrifice super contributions are generally taxed at a maximum rate of 15% – a potential tax saving of up to 31.5%.

By implementing this strategy you can save on tax and make a larger investment for your retirement.

^{*} Includes a Medicare levy of 1.5%.

How does the strategy work?

To use this strategy you need to make an arrangement with your employer that is prospective in nature. In other words, you can only sacrifice income that relates to future performance.

When sacrificing regular salary or wages, the arrangement should commence on the first day to which the next pay period relates.

However, you may only salary sacrifice a bonus payment to which you have no pre-existing entitlement. In practice, this often means the arrangement must be made no later than the day before your employer determines your bonus entitlement.

In both cases, it's also important to have the agreement thoroughly documented and signed by both parties.

Note: Salary sacrifice contributions can't be accessed until you meet a condition of release – see FAQs on page 28.

Strategy

01

The benefits

- Increase your retirement savings in a tax-effective manner.
- Invest up to 85% of your pre-tax salary, compared to only 53.5%^{*} when investing take home pay.

^{*} Assumes you pay tax at the highest marginal rate of 46.5% (including a Medicare levy of 1.5%).

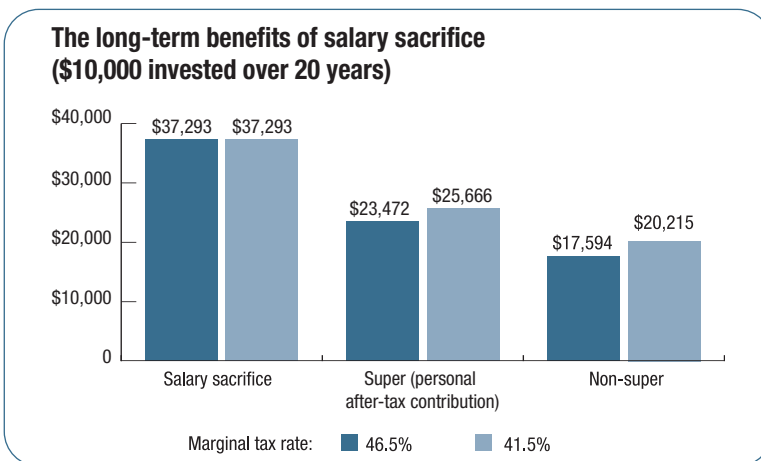
Case study

William, aged 45, receives a salary of \$75,000 pa and anticipates receiving a bonus of around \$10,000. He negotiates with his employer to have any bonus paid directly into his super fund, rather than receiving the money as cash salary. This will enable him to invest an additional \$2,650.

	Bonus as after-tax salary	Bonus as salary sacrifice
Pre-tax bonus	\$10,000	\$10,000
Less income tax at 41.5%*	(\$4,150)	(N/A)
Less contributions tax at 15%	(N/A)	(\$1,500)
Net amount to invest	\$5,850	\$8,500
Additional amount to invest		\$2,650

If William retires in 20 years at age 65, the higher initial investment, plus a maximum tax rate of 15% on investment earnings, makes salary sacrifice a more powerful strategy than investing the after-tax bonus within super (as a personal after-tax contribution) or outside super. This is confirmed below at William's marginal tax rate of 41.5%*, as well as the highest marginal rate of 46.5%*.

* Includes a Medicare levy of 1.5%.



Assumptions: A 20-year comparison based on a \$10,000 pre-tax bonus payment. Total return is 8% pa (split 3% income and 5% growth). The overall franking level on investment income is 25%. All figures are after income tax (at 15% on super and 41.5% or 46.5% on non-super) and capital gains tax (including discounting). These rates are assumed to remain constant over the investment period.

Note: William pays no lump sum tax on his super benefit in 20 years, as he will be over age 60.

Tips and traps

- A salary sacrifice arrangement may result in a reduction in other benefits such as leave loading, holiday pay and Superannuation Guarantee contributions, as these benefits are often calculated on your base salary.
- It may be worthwhile converting your home loan to interest-only and contributing pre-tax salary into super via salary sacrifice (see Strategy 2).
- If you are aged 55 or over and still working, you may want to sacrifice a portion of your pre-tax salary into super and commence a transition to retirement pension to replace your income shortfall (see Strategy 3).
- If eligible, there may be an advantage in splitting some of your salary sacrifice (or other concessional super) contributions with your spouse (see Strategy 4).
- If you earn less than \$58,980 pa, of which at least 10% is from eligible employment or carrying on a business, you may want to consider making a personal after-tax super contribution of \$1,000. This may enable you to qualify for a Government co-contribution of up to \$1,500 (see Strategy 5).
- Before using this strategy, you should ensure that your salary sacrifice and other concessional super contributions don't exceed the concessional contribution cap (see FAQs on page 26).
- Although it is possible to sacrifice salary below the minimum entitlement under an industrial award, employers should be aware they may still be required to provide the minimum salary or wages under industrial law.

Divert cashflow from your home loan into super

Many people opt for a home loan that requires principal and interest (P&I) repayments. However, if you want to maximise your retirement savings, you may be better off switching your home loan to interest-only and contributing pre-tax salary into super via salary sacrifice (see Strategy 1).

How does the strategy work?

To use this strategy, you need to refinance your home loan. Most lending institutions offer interest-only loans with a choice of fixed and variable interest rates.

By not making principal repayments, your surplus cashflow* will increase, giving you the opportunity to sacrifice an equivalent amount of pre-tax salary into your super fund.

Because your debt will remain the same, you'll pay more interest over the life of the loan.

However, you still have the potential to come out ahead, as salary sacrifice contributions are made from your pre-tax salary and are generally taxed at a maximum rate of 15%.

Conversely, home loan principal repayments are made from your after-tax salary (ie after tax is deducted at your marginal rate of up to 46.5%#).

Another benefit of super is that you can make tax-free withdrawals at age 60 or over to pay back the loan, assuming you meet a condition of release (see FAQs on page 28).

While the results will depend on factors such as your marginal tax rate, home loan interest rate, investment returns and your time horizon, diverting cashflow from your home loan to super can be a powerful strategy.

* In this context, surplus cashflow is your after-tax income from all sources, less your living expenses and home loan repayments.

Includes a Medicare levy of 1.5%.

Strategy

02

The benefits

- Use your cashflow more tax-effectively, by investing pre-tax money in super rather than making home loan repayments from your after-tax salary.
- Build more wealth to support yourself in retirement.

Case study

Tina, aged 50, pays tax at a marginal rate of 41.5%*. Her home loan is \$250,000 and the current interest rate is 7.5% pa. She is making the minimum P&I repayment of \$2,968 per month over a ten-year term. She is looking to build her retirement savings, but currently doesn't have any surplus cashflow to do this.

If Tina switches to an interest-only loan at an interest rate of 7.5%, her repayment will reduce to \$1,563 per month. This will free-up \$1,405 in cashflow each month and enable her to invest a pre-tax amount of \$2,402# per month in super via salary sacrifice.

	Per month
P&I repayment	\$2,968
Less interest-only repayment	(\$1,563)
Surplus cashflow created by refinancing	\$1,405
Pre-tax amount available to salary sacrifice	\$2,402#

* Includes a Medicare levy of 1.5%.

The salary sacrifice amount of \$2,402 per month, less tax at her marginal rate of 41.5% (ie \$997) is the pre-tax equivalent of her surplus cashflow of \$1,405 per month.

The next table shows the value added by this strategy in ten years, after cashing out her super and repaying the debt of \$250,000[^]. By using her cashflow more tax-effectively, Tina has accumulated an additional \$111,321 in super for her retirement, despite paying more home loan interest.

	In ten years
Value of salary sacrifice contributions (including earnings)	\$361,321
Less amount withdrawn from super to repay home loan	(\$250,000) [^]
Net value of salary sacrifice contributions (including earnings)	\$111,321

Assumptions: A ten-year comparison. The salary sacrifice super contributions earn a total return of 8% pa (split 3% income and 5% growth). The overall franking level on investment income is 25%. The home loan interest rate is 7.5%. All figures are after income tax of 15% on super, capital gains tax (including discounting), home loan interest and repayment of the home loan. These rates are assumed to remain constant over the investment period.

[^] Tina pays no lump sum tax when she cashes out her super in ten years, as she will be aged 60.

Tips and traps

- Some lending institutions may charge fees when you refinance your home loan to interest-only.
- Salary sacrifice super contributions can't be accessed until you meet a condition of release – see FAQs on page 28.
- Before using this strategy, you should ensure that your salary sacrifice and other concessional super contributions don't exceed the concessional contribution cap (see FAQs on page 26).
- There may be an advantage in splitting some of your salary sacrifice (or other concessional super) contributions with your spouse (see Strategy 4).
- If you have surplus cashflow before you refinance to an interest only loan, you could use this to make additional principal repayments, or contribute an equivalent pre-tax amount into super via salary sacrifice. To find out the best option for you, seek financial advice.
- There is a legislative risk that a future Government may restrict lump sum withdrawals from a super fund. This could limit your ability to pay off the loan, unless you have other savings.

Save more for retirement without reducing your income

In Strategy 1, we explained how sacrificing some of your pre-tax salary into super can increase your retirement savings in a tax-effective manner.

If you are 55 years of age or older and still working, you may want to commence a Transition to Retirement Pension (TRP*) so you can make larger salary sacrifice contributions. By using this strategy, you may be able to build a bigger retirement nest egg without reducing your current income.

* A TRP is an account based pension that can be purchased with preserved or restricted non-preserved super benefits when you've reached your preservation age (currently 55 – see FAQs on page 29). Limits apply to the amount of income you can receive each year and lump sum withdrawals can only be made in certain circumstances (see FAQs on page 30).

How does the strategy work?

This strategy involves:

- Arranging with your employer to sacrifice part of your prospective pre-tax salary directly into a super fund
- Investing some of your existing super in a TRP, and
- Using the regular payments from the TRP to replace the income you sacrifice into super.

By taking these steps, it's possible to accumulate more money for your retirement, due to a range of potential benefits, including:

- Less tax on contributions, as salary sacrifice super contributions are generally taxed at up to 15%, rather than marginal rates of up to 46.5%#
- Less tax on investment earnings, as earnings in a TRP are tax-free, whereas earnings in a super fund are taxed at a maximum rate of 15%
- Less tax on income, as the taxable income payments will attract a 15% pension offset between age 55 and 59. Also, when you reach age 60, the income stream payments you receive are completely tax-free^ and you don't have to include these amounts in your annual tax return (which could reduce the tax payable on your non-super investments).

While the magnitude of the tax savings will depend on your particular circumstances, combining salary sacrifice with a TRP could be a powerful pre-retirement strategy.

Includes a Medicare levy of 1.5%.

^ Assumes the income stream is commenced from a taxed super fund (see Glossary).

Note: This strategy could also be used if you are self-employed (see Glossary). However, rather than making salary sacrifice contributions, you need to invest some of your business income in super as a personal deductible contribution. See your financial adviser for more information.

Strategy

03

The benefits

- Take advantage of a tax-effective income stream while you are still working.
- Build more wealth to support yourself when you permanently retire.

Case study

Craig, aged 55, earns a pre-tax salary of \$90,000 pa and receives 9% Superannuation Guarantee (SG) contributions from his employer. He decides to reduce his pre-tax salary to \$55,000 pa and sacrifices \$35,000 pa into his super fund to build his retirement savings.

To receive the same after-tax income of approximately \$65,000 pa, he commences a TRP and elects to receive taxable income payments of \$27,313 in the first year.

Note: Assumes Craig continues to receive 9% SG based on his package of \$90,000 pa, even after he sacrifices \$35,000 pa into his super fund.

	Before strategy	After strategy
Pre-tax salary	\$90,000	\$55,000
TRP income	Nil	\$27,313
Total pre-tax income	\$90,000	\$82,313
Less tax payable	(\$24,450)	(\$16,763)*
After-tax income	\$65,550	\$65,550
SG contributions	\$8,100	\$8,100
Salary sacrifice contributions	Nil	\$35,000

* Takes into account the Mature Age Worker Tax Offset (see FAQ on page 29).

While the after-tax income and SG contributions are exactly the same in both scenarios, this strategy has the potential to increase Craig's retirement savings.

This is partly because Craig will invest more money in super each year than he will withdraw from his TRP. For example, in the first year, while Craig will receive an income of \$27,313 from the TRP, he will invest a net amount of \$29,750 in his super fund (ie \$35,000 less 15% contributions tax = \$29,750). That's an extra \$2,437 in the first twelve months alone. Also, earnings in the TRP are tax-free, versus tax at up to 15% applying to earnings accumulating in the accrual phase in super.

If we assume Craig has \$325,000 in super (consisting entirely of the taxable component) and invests this amount in a TRP, the next table shows the value added by this strategy over various time periods. For example, if Craig uses this strategy for the next ten years, he will increase his retirement savings by a further \$94,285.

After year...	Value of investments		Value added by strategy
	Before strategy (super only)	After strategy (super and TRP)	
1	\$358,036	\$362,351	\$4,315
5	\$518,640	\$543,882	\$25,242
10	\$802,583	\$896,868	\$94,285

Other assumptions: Both the super and TRP investment earn a total pre-tax return of 8% pa (split 3% income and 5% growth). The overall franking level on investment income is 25%. Salary doesn't change over the ten-year period. Craig receives a tax-free income from the TRP from age 60. Neither the super nor TRP investment are cashed out.

Tips and traps

- When using this strategy, there are some limitations that need to be considered. For example:
 - To replace large salary sacrifice contributions, you may need to invest a significant amount of super in a TRP
 - The salary sacrifice (and other concessional) super contributions are subject to a cap (see FAQs on page 26).
 - If your SG contributions are based on your reduced salary amount, this strategy could erode your wealth.
- There may be an advantage in splitting some of your salary sacrifice (or other concessional super) contributions with your spouse (see Strategy 4).
- A TRP could also be used to top-up your salary when reducing your working hours.
- The Australian Taxation Office (ATO) has confirmed straightforward arrangements involving a TRP and salary sacrifice should not result in adverse tax consequences and penalties under the general anti-avoidance provisions. However, if the strategy is artificial or contrived, it is likely to attract ATO attention.

Split your way to a better retirement

If you have a spouse, you may want to split some of your concessional super contributions into their super account. By using this strategy, you could receive your combined super balances in a more tax-effective manner prior to age 60.

For example, by accumulating super in two names, splitting concessional contributions could enable you to:

- Access two low rate caps (of \$140,000 in 2007/08) when making a lump sum withdrawal from the taxable component (see case study).
- Commence two retirement income streams (such as an account based pension) and take advantage of two sets of personal tax thresholds, as well as pension offsets of 15% on the taxable income payments.

How does the strategy work?

This strategy enables you to split with your spouse some of your concessional super contributions. These comprise:

- Employer contributions, including salary sacrifice (see Strategy 1), and
- Personal deductible contributions, which can generally only be made if you are self-employed (see Glossary).

In a particular financial year, you can generally only apply to split up to 85% of the concessional contributions you received in the previous financial year. However, if you close your account to commence an income stream or rollover the proceeds to another super provider, some funds may allow you to split up to 85% of the concessional contributions you receive during the financial year up until the point of closure or rollover.

To use a splitting strategy, you and your spouse must be in a married (or de facto) relationship, but you can't be same sex partners. Also, to receive a contribution split, your spouse must be under 55 years of age or, if between 55 and 64 years, they may need to meet certain conditions (see FAQs on page 28).

Note: In the current (2007/08) financial year, it is also possible to split up to 100% of the non-concessional contributions (NCCs) you received between 1 July 2006 and 5 April 2007. NCCs include personal after-tax super contributions and certain other amounts (see FAQs on page 26). However, splitting NCCs is generally not tax-effective, as these amounts must be classified as a taxable component in your spouse's super account when split to them. As a result, tax could be payable on the split amount if received by your spouse before age 60, or if paid to a non-dependant beneficiary on death (see your financial adviser for more information).

Strategy #

04

The benefits

- Reduce tax on super benefits received before age 60.
- Retain more of your super to meet your needs in retirement.

Case study

Harry, aged 48, is working full-time and is married to Ruth, aged 47, who is working part-time. They both plan to take their super as a cash lump sum in ten years (ie before either of them reaches age 60). Harry and Ruth currently have \$200,000 and \$10,000 in their respective super funds, consisting entirely of the taxable component.

Given Harry's super already exceeds the low rate cap on the taxable component of \$140,000 in 2007/08, he arranges to split 85% of his employer's contributions into Ruth's super account in each of the next ten years until she reaches age 57*.

At the end of the ten year period, Ruth's super benefit is worth a total of \$135,000. This includes \$100,000 of contributions split into her account and related earnings. Because the total amount of \$135,000 is within the low rate cap, Ruth will pay no lump sum tax when cashing out her benefit#.

Conversely, if the \$100,000 in split contributions and related earnings had stayed in Harry's super account, he would have paid tax of 16.5%^ when received as a cash lump sum before age 60. By using the splitting strategy, Harry and Ruth will save \$16,500 in lump sum tax as a couple.

	If received by Ruth	If retained by Harry
Split contributions and related earnings	\$100,000	\$100,000
Lump sum tax rate payable	Nil	16.5%^
Lump sum tax payable	Nil	\$16,500

* Ruth is able to receive the contribution splits between age 55 and 57, as she will still be employed part-time.

Ruth is able to access her super at age 57, as she will have reached her preservation age (see FAQs on page 29).

^ Includes a Medicare levy of 1.5%.

Given the low rate cap is indexed each year, there is considerable scope for Ruth to accumulate additional tax-free benefits. This could be achieved, for example, if Harry makes salary sacrifice contributions into his super fund (see Strategy 1) and splits up to 85% of these amounts into Ruth's super account.

Note: There are other reasons why you might want to use a splitting strategy. These could include to:

- Transfer contributions to an older spouse, who will reach age 60 earlier and be able to receive tax-free benefits upon reaching this age.
- Provide some protection against the legislative risk that a future Government will re-introduce some form of taxation on end super benefits for people aged 60 or over.

Tips and traps

- Not all funds offer splitting and some are not eligible to participate (eg the defined benefit component of any super interest is excluded).
- Funds offering splitting are likely to have their own rules and limits. For example, some funds may limit the split to ensure a minimum account balance remains.
- Certain amounts can't be split. For instance, once contributions have been rolled over to another fund, they cannot be re-directed to your spouse.
- Before you split super contributions, you should determine whether the potential benefits outweigh the costs (including any splitting fees or capital gains tax that may be payable).
- After splitting super contributions, there may be tax or estate planning advantages if you (or your spouse) cash-out and re-contribute a portion of your super benefits before commencing an income stream.

Top-up your super with help from the Government

If you earn less than \$58,980* pa, of which at least 10% is from eligible employment or carrying on a business, you may want to make personal after-tax super contributions. By using this strategy, you can boost your retirement savings and possibly receive a co-contribution from the Government.

Another benefit is that your own contributions (as well as any associated co-contributions) aren't taxed on entering the super fund and can be received tax-free in retirement.

Also, investment earnings in a super fund are taxed at a maximum rate of 15%, which may be lower than the marginal tax rate you pay when investing outside super.

How does the strategy work?

To qualify# for the full co-contribution (\$1,500) you generally need to make a personal after-tax super contribution of \$1,000 and earn* less than \$28,980 pa. However, a reduced amount may be paid if you contribute less than \$1,000 and/or your earn* between \$28,980 pa and \$58,980 pa.

The Australian Taxation Office (ATO) will determine if you qualify based on the data received from your super fund (usually by 31 October each year for the preceding financial year) and the information contained in your tax return. As a result, there can be a time lag between when you make your personal after-tax super contribution and when the Government pays the co-contribution.

If you are eligible for the co-contribution, you can nominate which fund you would like to receive the payment. Alternatively, if you don't make a nomination and you have more than one account, the ATO will pay the money into one of your funds based on set criteria.

* Includes assessable income plus reportable fringe benefits.

Other eligibility conditions apply (see FAQs on page 27).

Note: Some funds or superannuation interests may not be able to receive co-contributions. This includes unfunded public sector schemes, defined benefit interests, traditional policies (such as endowment or whole of life) and insurance only superannuation interests.

Strategy

05

The benefits

- Receive a co-contribution from the Government of up to \$1,500 pa.
- Increase your retirement savings in a tax-effective manner.

Case study

Ryan, aged 40, is employed and earns \$36,000* pa. He wants to invest \$1,000 per year (from his after-tax salary) so he can build his retirement savings.

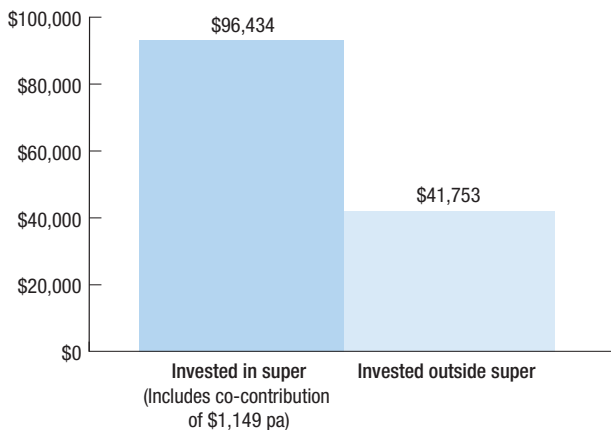
If he invests the \$1,000 outside super each year (in a unit trust, for example), the earnings will be taxable at his marginal rate of 31.5%#. If he invests the money in super as a personal after-tax contribution, the earnings will only be taxed at a maximum rate of 15%, and he will be entitled to a co-contribution of \$1,149 per year.

The graph below compares these two approaches if they are maintained over 20 years until Ryan is age 60. The combined effect of receiving co-contributions and the lower tax rate on investment earnings will make a big difference to his wealth in retirement.

* Includes assessable income plus reportable fringe benefits.

Includes a Medicare levy of 1.5%.

The long-term benefits of co-contributions (\$1,000 pa in after-tax salary invested over 20 years)



Assumptions: A 20-year comparison based on an after-tax investment of \$1,000 pa. The super investment (only) attracts a co-contribution of \$1,149 pa. Total return is 8% pa (split 3% income and 5% growth). The overall franking level on investment income is 25%. All figures are after income tax (at 15% for super and 31.5% for non-super) and capital gains tax (including discounting). These rates are assumed to remain constant over the investment period.

Note: Ryan pays no lump sum tax on his super benefit in 20 years, as he will be age 60.

Tips and traps

- Personal after-tax super contributions (as well as any associated co-contributions) can't be accessed until you meet a condition of release – see FAQs on page 28.
- Make sure you supply your super fund with your Tax File Number so that the ATO can correctly determine your co-contribution entitlement.
- If you are a higher income earner and you are currently making salary sacrifice contributions (see Strategy 1), your lower income spouse (if applicable) may also want to make a personal after-tax super contribution so they can qualify for a co-contribution. If you have insufficient cash flow to do both, there may be an advantage if you forgo a portion of your salary sacrifice contributions and have your spouse invest the after-tax proceeds into their super account instead.
- If you want to maximise your eligibility for a co-contribution, salary sacrificing into super could enable you to reduce your income below \$58,980 pa (so that you qualify for a part co-contribution) or \$28,980 pa (to qualify for a full co-contribution).
- A co-contribution could be used to purchase insurance through a super fund (see Strategy 6). Alternatively, insurance purchased through a super fund may attract a co-contribution that could be used to top-up your super investments or purchase even more insurance cover.
- You could also consider making an after-tax contribution of \$3,000 into a super fund on behalf of your spouse. If they earn less than \$13,800 pa, this may entitle you to a spouse offset of up to \$540 (see FAQs on page 28).

Purchase life and TPD insurance tax-effectively

Many people take out insurance via a personal policy in their own name. However, if you're able to make salary sacrifice contributions, you're eligible for a Government co-contribution, you have a low-income spouse or you're self-employed, you should consider the benefits of insuring through a super fund.

By holding life and total and permanent disability (TPD) insurance through super, you may be able to reduce the effective cost of your premiums considerably. When you take into account the potential tax savings, it's also possible to purchase a higher level of cover, when compared to insuring outside super.

How does the strategy work?

The same tax deductions and offsets that apply when investing in super also apply to insurance purchased through a super fund.

- **If you're eligible to make salary sacrifice contributions** (see Strategy 1), you may be able to purchase insurance through a super fund with pre-tax dollars (see case study).

- **If you earn less than \$58,980* pa, of which at least 10% is from eligible employment or carrying on a business and you make personal after-tax super contributions**, you may be eligible to receive a Government co-contribution (see Strategy 5) that could help you cover the cost of insurance.
- **If you make super contributions on behalf of a low-income spouse**, you may be able to claim a tax offset of up to \$540 pa (see FAQs on page 28) that could be put towards insurance premiums for you or your spouse.
- **If you're self-employed** (see Glossary) you can generally claim your super contributions as a tax deduction – regardless of whether they are used in the fund to purchase investments or insurance.

These tax benefits can make it significantly cheaper to insure through a super fund. All you need to do is nominate how your contributions should be allocated between your super investments and your insurance policy.

* Includes assessable income plus reportable fringe benefits. Other eligibility conditions apply (see FAQs on page 27).

Strategy

06

The benefits

- Reduce the cost of your life and TPD insurance premiums.
- Purchase a higher level of cover when compared to insuring outside super.

Case study

Andrew, aged 38, earns a salary of \$80,000 pa. He is married with young children and has a large mortgage.

His employer's super fund already provides life and TPD insurance. However, he needs additional cover to help his family pay off their debts and replace his income, should the unthinkable happen. The premium for this additional insurance is \$1,170 pa.

If he takes out the additional cover through a personal insurance policy (outside super), he will need to pay the annual premium from his after-tax salary. The pre-tax cost will therefore be \$2,000 (ie \$2,000 less tax at his marginal rate of 41.5%* is \$1,170).

After speaking to his financial adviser, Andrew decides to take out an equivalent level of cover through his super fund. He arranges for his employer to sacrifice \$1,170 of his pre-tax salary into his fund and instructs the fund administrator to use this contribution to pay the insurance premiums.

Because super funds receive a tax deduction for death and disability premiums, no contributions tax will be deducted from Andrew's super contribution. As a result, he will be able to purchase the insurance through his super fund with pre-tax dollars and make a pre-tax saving# of \$830 on the first year's premiums.

	Insurance purchased outside super (with after-tax salary)	Insurance purchased within super (via salary sacrifice)
Insurance premium (pa)	\$1,170	\$1,170
Plus income tax payable on salary at 41.5%*	\$830	Nil
Pre-tax cost of insurance	\$2,000	\$1,170
Pre-tax saving#		\$830

* Includes a Medicare levy of 1.5%.

Given Andrew pays tax at a marginal rate of 41.5%, the after-tax saving would be \$486.

Tips and traps

- Insurance cover, purchased through a super fund is owned by the Trustee of the super fund who is responsible for paying benefits subject to relevant legislation and the rules of the fund. When considering insurance cover purchased through a super fund you should be clear on the powers and obligations of the relevant Trustee in respect of paying benefits.
- No tax is payable when a superannuation death benefit is received by a dependant, such as a spouse or child under age 18.
- Tax may be payable when a superannuation death benefit is paid to a non-dependant, or a TPD benefit is received by a disabled fund member. However, to compensate for the potential tax liability, you could consider taking out a higher level of insurance. While this will generally increase the premiums, the after-tax cost may be lower than insuring outside super, when you take into account the tax concessions outlined on page 18.
- While critical illness insurance is generally not available within super, it is now possible to purchase income protection (or salary continuance) insurance in super with a choice of benefit payment periods up to age 65.
- When making contributions to fund insurance premiums in a super fund, you should take into account the cap on concessional and non-concessional contributions (see FAQs on page 26).
- When insuring in super, you can usually arrange for the premiums to be deducted from your existing account balance. This can enable you to buy insurance in situations where you don't have sufficient cashflow to fund the premiums outside super.

Move assets into super and minimise tax

There are a number of good reasons for setting up your own self-managed super fund (SMSF) or investing via a public offer discretionary master trust (see Glossary). You have a broad choice of managed and direct investments and can decide when assets are bought and sold.

Another key benefit is you can usually transfer the ownership of certain assets directly into your fund. By making what is known as an *in specie* super contribution, you can take advantage of the low tax rate on investment earnings and make your retirement savings work harder.

How does the strategy work?

If you own an asset outside super, you pay tax on the investment earnings at your marginal rate (which could be as high as 46.5%^{*}). However, if you transfer the ownership of certain assets into super, the investment earnings will only be taxed at a maximum rate of 15% – a tax saving of up to 31.5% pa.

Admittedly, the change in ownership of the asset may mean that capital gains tax (CGT) and stamp duty are payable. Nevertheless, the long-term benefits of a lower tax rate on investment earnings, combined with tax free super benefits from age 60, may more than compensate for any potential CGT liability.

You may also be able to minimise your CGT liability if you have any accumulated capital losses or you're eligible to claim your super contributions as a tax-deduction (see Strategy 8).

^{*} Includes a Medicare levy of 1.5%.

Note: *In specie* (and other super) contributions can't be accessed until you meet a condition of release – see FAQs on page 28. If you don't need to access the money until you retire, this shouldn't be an issue, provided you have sufficient cash outside super to cover any unexpected expenses or emergencies.

Strategy

07

The benefits

- Reduce tax payable on investment earnings.
- Increase the after-tax benefit available for retirement significantly.

Case study

Kate, aged 40, bought some shares several years ago. They're currently worth \$50,000 (including a taxable capital gain of \$12,500*) and she plans to use them to fund her retirement. After speaking to her financial adviser, she decides to contribute the shares *in specie* into her self-managed super fund to take advantage of the lower tax rate on investment earnings.

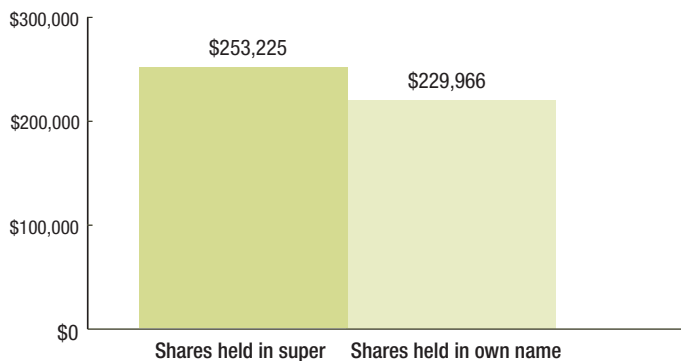
By transferring ownership of the shares, she'll need to pay \$5,187 in CGT at her marginal rate of 41.5%#. Assuming she sells some of the shares to cover her CGT liability, Kate will be able to invest a net amount of \$44,813 in her super fund, as a personal after-tax contribution.

The following graph compares the results after 20 years of making an *in specie* contribution with keeping the shares in her own name.

* This figure is after the 50% CGT discount. Assumes Kate has no capital losses to offset her taxable capital gain and is not eligible to claim her super contribution as a tax deduction.

Includes a Medicare levy of 1.5%.

The long-term benefit of holding assets in super after 20 years (Before CGT on end benefits)



Assumptions: A 20-year comparison. Total return is 8.5% pa (split 3% income and 5.5% growth). All dividends are re-invested. All dividend income is franked at 75%. All figures are after income tax (at 41.5% for non-super and 15% for super). These rates are assumed to remain constant over the investment period.

By transferring her shares into super, Kate will have approximately \$23,000 more for retirement (before CGT). Also, if she uses this money to commence a tax-effective income stream within her SMSF (eg an account based pension), no CGT will be payable. She will also pay no tax on any income payments she receives from her super after age 60.

Conversely, if she had stuck with her original strategy (ie kept the shares in her own name), CGT would have been payable if she needed to sell her shares to meet her lifestyle needs in retirement.

Tips and traps

- Under superannuation law, only certain types of assets can be acquired by a fund from a member or relative. This includes shares held in your own name (that are listed on an approved stock exchange), business real property (see Glossary), and units in widely held unit trusts. The ability to acquire an asset from a member will also be subject to the particular rules of the super fund.
- If you are considering a SMSF, you should be aware there are strict membership and Trustee rules (including the requirement that all members of the fund are Trustees). As a Trustee, you are responsible for the general running of the fund, as well as compliance with the trust deed and superannuation law.
- If you want greater investment flexibility without the burden of running your own fund, a public offer discretionary master trust may be a more viable alternative. These funds offer you an extensive range of investments and usually allow you to make *in specie* contributions.
- Stamp Duty may be payable on the *in specie* transfer in some States and Territories.
- With some assets (like shares and managed investments) it may be simpler to sell the asset, contribute the proceeds into super and re-purchase the same asset in your super fund.

Contribute to super and offset CGT

If you have recently sold (or plan to sell) an asset, capital gains tax (CGT) could account for up to 46.5%* of your profit. The good news is there are a number of strategies available that enable you to legitimately minimise your CGT liability.

If eligible, one approach could involve investing some of the sale proceeds in super and claiming a portion of your contribution as a tax deduction#. By using this strategy, you could save on CGT and make a larger after-tax investment.

* Includes a Medicare levy of 1.5%.

How does the strategy work?

If you invest the proceeds from the sale of an asset into super and claim a tax deduction# for an amount that offsets your taxable capital gain, you can reduce (or eliminate) your CGT liability.

Also, even though the tax-deductible portion of your super contribution will attract a contributions tax of 15%, the net tax savings can still be quite significant, as the case study reveals.

To use this strategy, you must be eligible to contribute to super (see FAQs on page 26).

Furthermore, you must generally receive less than 10% of your assessable income (plus reportable fringe benefits) from eligible employment.

As a result, this strategy can usually only be used if:

- You're self-employed, or
- You're under age 65, have recently retired and don't receive any super contributions from an employer in the financial year you sell an asset and invest in super.

Super contributions claimed as a tax deduction will count, along with certain other amounts, towards your concessional contribution (CC) cap. From 1 July 2007, the CC cap is \$50,000 pa or, if you're aged 50 or over, \$100,000 pa for five years until 30 June 2012. If the cap is exceeded, excess contributions will be taxed at a penalty rate of 31.5%, in addition to the contributions tax of 15%.

Note: The amount of your super contribution you don't claim as a tax deduction will be classified as a non-concessional contribution — see FAQs on page 26.

Strategy



The benefits

- Reduce or eliminate CGT on the sale of non-super investments by making a personal deductible super contribution.
- Take advantage of a maximum tax rate of 15% on investment earnings.

Case study

Lisa, aged 38, is self-employed and earns a taxable income of \$80,000 pa. She also recently received \$50,000 from the sale of some shares she owned for the last five years – including a taxable capital gain of \$12,500*. She will therefore need to pay \$5,187 in CGT on the shares at her marginal rate of 41.5%#.

Before strategy

Taxable capital gain	\$12,500*
CGT payable at 41.5%#	\$5,187

* This figure is after the 50% CGT discount and assumes Lisa has no capital losses to offset her taxable capital gain.

Includes a Medicare levy of 1.5%.

After speaking to her financial adviser, Lisa decides to contribute \$12,500[^] from the sale of her shares into super and claims this amount as a tax deduction.

By implementing this strategy, she will be able to offset her taxable capital gain of \$12,500 and eliminate her CGT liability of \$5,187. After taking into account the 15% tax payable on her super contribution (\$1,875), Lisa will be able to reduce her overall tax bill by \$3,312.

After strategy

Taxable capital gain	\$12,500
Less tax deduction for super contribution [^]	(\$12,500)
Net taxable gain	Nil
CGT saved	\$5,187
Less 15% super contributions tax	(\$1,875)
Net tax saving	\$3,312

[^] Lisa is eligible to claim her super contributions as a tax deduction as she is self-employed. We have assumed that the personal deductible contribution (\$12,500) plus any other concessional super contributions she chooses to make in the 2007/08 financial year are within her concessional contribution cap (see FAQs on page 26).

Tips and traps

- To offset a capital gain, the super contributions you claim as a tax deduction need to be made in the same financial year in which the asset is sold.
- You may want to contribute more into super than you require to offset your CGT liability. This could enable you to claim an additional tax deduction, which could be used to reduce your tax bill if you earn income from other sources (eg from self-employment).
- If you don't have other taxable income to offset, you may want to make an additional super contribution and not claim this amount as a tax deduction. With this strategy, the amount you don't claim as a tax deduction will be classified as a non-concessional contribution (NCC). While NCCs do not attract a 15% contributions tax in the fund, amounts exceeding the NCC cap are subject to a penalty tax of 46.5%. From 1 July 2007, the cap is \$150,000 a year (or \$450,000 in one year if you're under age 65 in that year and don't make further contributions in the following two years) – see FAQs on page 26.
- Rather than selling an asset and transferring the after-tax proceeds into superannuation, it may be possible to contribute certain qualifying assets into super *in specie* (see Strategy 7). While the transfer may still result in CGT and stamp duty being payable, the CGT may be offset by claiming a portion of the *in specie* contribution as a tax deduction.

Convert business capital into tax-free retirement benefits

If you are a small business owner approaching retirement, you need to decide how you are going to meet your ongoing living expenses.

However, chances are you may not have invested much in super, preferring instead to plough the profits back into your business. This makes good sense, except for one thing – capital gains tax (CGT). The more tax you pay on the sale of your business, the less you'll have for retirement.

Fortunately, there are some strategies that could enable you to save on CGT when selling your business, and get the money into the concessionally taxed superannuation system.

One approach is to claim the CGT Retirement exemption when disposing of active business assets*.

* Active business assets can include assets such as land and buildings used in producing assessable income, but not necessarily passive assets such as shares.

How does the strategy work?

To be eligible to claim the CGT Retirement Exemption:

- You must have net income-producing assets (excluding super) of less than \$6 million in 2007/08, or be subject to the Simplified Tax System, and

- Your business must be operated as a sole trader, partnership, private company or private trust.#

If eligible, claiming the CGT Retirement Exemption can enable you to disregard up to \$500,000 (over your lifetime) in capital gains arising from the sale of active business assets.

If you're aged 55 or over, you can retain the CGT Retirement amount outside super, where earnings will be taxed at your marginal rate of up to 46.5%[^].

However, if you invest the money in super, earnings will generally be taxed at a maximum rate of 15%. Also, if you use your super to start an income stream investment (such as an account based pension):

- No tax will be payable on earnings within the fund,
- The taxable income payments will attract a 15% tax offset between age 55 and 59, and
- All income payments received at age 60 or over will generally be tax-free.

Note: If you're under age 55, you must invest the CGT Retirement amount in super to qualify for the CGT concession. Also, you won't be able to access the money (as a lump sum or income stream) until you meet a condition of release (see FAQs on page 28).

Other conditions apply. Speak to your adviser.

[^] Includes a Medicare Levy of 1.5%.

Strategy

09

The benefits

- Eliminate an otherwise taxable capital gain on disposal of your active business assets.
- Convert business assets into super assets.

Case study

Jane, aged 64, owns a business she wants to sell in order to fund her retirement. She has owned the business for the last ten years and has recently found a buyer who is willing to pay \$500,000 – providing a capital gain of \$400,000.

If Jane doesn't apply for the CGT Retirement Exemption, she will need to pay \$46,500 in CGT at her marginal tax rate of 46.5%*, after taking into account the general 50% CGT discount# and the 50% Active Assets exemption^. As a result, she will receive a net benefit of \$453,500.

Before strategy

Sale proceeds	\$500,000
Less cost base	(\$100,000)
Nominal capital gain	\$400,000
Less 50% CGT discount#	(\$200,000)
Net gain after discount	\$200,000
Less 50% CGT Active Assets exemption^	(\$100,000)
Net taxable gain	\$100,000
Tax payable at 46.5%*	\$46,500
After-tax proceeds	\$453,500

* Includes a Medicare levy of 1.5%.

Individual small business owners (eg sole traders and partners) can elect to be taxed on only 50% of the nominal gain.

^ All small business owners can elect for the 50% CGT Active Assets exemption to apply (see FAQs on page 27).

After strategy

If Jane elects to apply for a CGT Retirement Exemption of \$100,000, she could offset her net taxable gain and eliminate her CGT bill of \$46,500 completely. By using this strategy, she could receive the full sale proceeds of \$500,000 without paying any tax.

She could also invest the \$100,000 CGT Retirement amount in super, as well as contribute the balance of the sale proceeds (\$400,000) as a personal after-tax contribution~ in the current (2007/08) financial year. This will enable her to start an income stream (such as an account based pension) and receive unlimited tax-free income payments from this investment to meet her living expenses.

~ A cap applies to personal after-tax and other non-concessional super contributions. This cap is \$150,000 a year (or \$450,000 in one year if you're under age 65 in that year and don't make further contributions in the following two years). If you exceed the cap, excess contributions are subject to a penalty tax of 46.5% (see FAQs on page 26).

Tips and traps

- When you retire, you must elect for the CGT Retirement Exemption to apply on (or before) the lodgement of your annual tax return for the year in which you dispose of your business assets.
- If you want to maximise your CGT Retirement Exemption (up to the maximum of \$500,000), you can elect to forgo the 50% Active Assets exemption. This strategy could enable you to get more money into super. See your financial adviser for more information.
- To invest a CGT Retirement amount in super, you must be eligible to make super contributions (see FAQs on page 26).
- Regardless of when the CGT Retirement amount is invested in super, the benefits can't be accessed until you meet a condition of release (see FAQs on page 28).
- When invested in super, the amount claimed via the CGT Retirement Exemption is counted towards the lifetime limit of \$1 million that is available when contributing certain proceeds from the sale of small business assets in super as a personal after-tax contribution (see FAQs on page 26).
- Depending on your situation, you may be eligible for other CGT concessions when disposing of active business assets (see FAQs on page 26). For example, a 100% CGT exemption is available if the active business assets have been held for 15 years or more and you meet certain other conditions.

FAQs

Who can contribute to super?

Subject to the fund rules, contributions to your super account in 2007/08 are allowed in the circumstances outlined in the table below:

Your age	Allowable contributions
< 65	<ul style="list-style-type: none">Personal contributions, mandatory employer contributions, voluntary employer contributions and spouse contributions.
65–69	<ul style="list-style-type: none">Personal contributions, voluntary employer contributions and spouse contributions, provided you have worked at least 40 hours over a consecutive 30 day period during the financial year.Mandatory employer contributions.
70–74	<ul style="list-style-type: none">Personal contributions and voluntary employer contributions, provided you have worked at least 40 hours over a consecutive 30 day period during the financial year.Mandatory employer contributions.
75+	<ul style="list-style-type: none">Mandatory employer contributions.

An existing super benefit can be rolled over at any time. You will also need to satisfy these conditions if you want to rollover an employment termination payment or invest the proceeds from the sale of a business in super.

How much can you contribute to super?

Assuming you are eligible to make contributions (see above), certain caps and limits apply. These include the non-concessional contribution cap, the concessional contribution cap and the lifetime limit. Each of these caps/limits is outlined below.

What is the non-concessional contribution (NCC) cap?

The NCC cap is a cap that applies to certain super contributions that include, but are not limited to, personal after-tax contributions and spouse contributions received.

From 1 July 2007, the cap is \$150,000 pa (or \$450,000 in one year if you're under age 65 in that year and don't make further contributions in the following two years).

If the cap is exceeded, excess contributions will be taxed at a penalty rate of 46.5%. Where penalty tax is payable, you must request your super fund to release sufficient benefits to pay the tax.

Note: Particular contributions are excluded from this cap. The main ones include:

- Certain proceeds from the sale of small business assets up to a lifetime limit of \$1 million (see below), and
- Settlements received for injuries relating to permanent disablement.

What is the concessional contribution (CC) cap?

The CC cap is a cap that applies to certain super contributions that include, but are not limited to:

- All contributions from an employer (including salary sacrifice),
- Personal contributions claimed as a tax deduction (where eligible), and/or
- Employment Termination Payments rolled over to super between 1 July 2007 and 30 June 2012 exceeding \$1 million*.

From 1 July 2007, the cap is \$50,000 pa or, if you're aged 50 or over, \$100,000 pa for five years until 30 June 2012.

If the cap is exceeded, excess contributions will be taxed at a penalty rate of 31.5%, in addition to a contributions tax of 15%.

Where penalty tax is payable, you will be able to request your super fund to release sufficient benefits, or you can pay the tax out of your non-super money.

* The \$1 million is reduced by all other transitional Employment Termination Payments received between 1 July 2007 and 30 June 2012 (including those taken in cash).

What is the lifetime limit?

The lifetime limit is a limit of up to \$1 million that is available to business owners when investing amounts from the following sources in super as a personal after-tax contribution:

- Capital proceeds from the disposal of assets that qualify for the 15 year CGT Exemption (see below), including capital proceeds that would have qualified for the 15 year CGT Exemption except that the disposal did not result in a capital gain or capital loss.
- Capital gains from the disposal of assets that qualify for the CGT Retirement Exemption (see below) up to a limit of \$500,000 per person.

What CGT concessions are available to small business owners?

Small business owners have a number of CGT concessions available to them. Some can also take advantage of more than one CGT concession.

To qualify for these concessions, small business owners must have net assets of less than \$6 million in 2007/08 (or be subject to the Simplified Tax System) and the assets disposed of must be active assets (eg land, buildings and goodwill) used in producing assessable income.

Where an entity (ie a trust or company) conducts the business, there are further conditions that must be met including the significant individual 20% test.

There are various concessions available if a small business owner meets the relevant conditions, including the:

15 year CGT exemption – This is a 100% CGT exemption available to all small business owners on the disposal of active assets held for 15 years or more. The assets must have been disposed of for the purpose of retirement, and the small business owner must be at least 55 years of age or incapacitated.

50% CGT Active Assets exemption – This is a 50% exemption available to all small business owners on the disposal of active assets.

CGT Retirement exemption – This is available to all small business owners up to a maximum lifetime limit of \$500,000. If the small business owner is less than 55 years of age, they must invest the proceeds in a super fund. However, if the small business owner is 55 or over, they can take the proceeds as cash, invest in super or purchase an income stream.

Note: Other conditions may apply for these concessions.

In addition to the small business concessions, the **50% CGT discount** is available to individuals and beneficiaries of trusts on all assets held for more than 12 months. This exemption is generally utilised before any other concession is claimed.

How is your super taxed?

• Tax on contributions

Employer contributions (including salary sacrifice) and personal deductible contributions form part of the super fund's assessable income and are taxed at a maximum rate of 15%.

• Tax on investment earnings

The investment earnings of a complying super fund are taxed at a maximum rate of 15%. The tax rate payable can be reduced with the use of dividend imputation credits and the CGT discount provisions. The 1/3 CGT discount means the effective tax rate on realised capital gains is only 10%, where the investments have been held for more than 12 months.

What tax concessions are available when contributing to super?

• Tax deduction on super contributions

If you are self-employed or unsupported (see Glossary), you may be eligible to claim a full tax deduction for your super contributions. However, you should keep in mind that any contributions you are eligible to claim as a tax deduction will count, along with certain other amounts, towards your concessional contribution cap (see page 26).

• Co-contributions from the Government

You may be entitled to a Government co-contribution of up to \$1,500 pa if:

- Your assessable income plus reportable fringe benefits is less than \$58,980 pa,
- At least 10% of your assessable income plus reportable fringe benefits is attributable to eligible employment or carrying on a business,
- You make personal after-tax contributions to your super account*,
- You lodge an income tax return,
- You are under age 71 at the end of the financial year that the personal superannuation contribution is made, and
- You are not a temporary resident.

* Salary sacrifice amounts do not qualify as personal contributions.

The table below outlines the co-contribution you may be entitled to receive if you make personal after-tax super contributions in the 2007/08 financial year.

Income [#]	Personal after-tax contribution [^]	Co-contribution available
\$28,980 or less	Any amount	Personal contribution x 1.5 (max. \$1,500)
\$28,981 – \$58,979	\$0 – \$1,000	An amount equal to the lesser of: <ul style="list-style-type: none"> • Personal contribution x 1.5, or • \$1,500 – [0.05 x (income[#] – \$28,980)]
\$28,981 – \$58,979	\$1,000 or more	\$1,500 – [0.05 x (income [#] – \$28,980)]
\$58,980 or more	Any amount	Nil

Includes assessable income plus reportable fringe benefits.

^ The personal after-tax contributions (but not Government co-contributions) will count towards the non-concessional contribution cap outlined on page 26.

- **Spouse contribution tax offset**

You may be able to claim a tax offset of up to \$540 pa when you make after-tax super contributions on behalf of your spouse. The amount of the offset will depend on your spouse's income* as follows:

Spouse's income*	Contribution amount#	You can claim an offset of:
\$10,800 or less	\$0 – \$3,000	18% of contributions
\$10,800 or less	\$3,000 or more	\$540 maximum
\$10,801 – \$13,799	Any amount	An amount equal to the lesser of: <ul style="list-style-type: none"> • Spouse contribution x 18%, or • [\$3,000 – (spouse's income[^] - \$10,800)] x 18%
\$13,800 or more	Any amount	Nil

* Includes assessable income plus reportable fringe benefits.

The after-tax super contributions received by your spouse will count towards their non-concessional contribution cap – see page 26.

A spouse under the relevant legislation includes a married or de facto spouse, but does not include a partner (married or de facto) who lives in a different home or a same sex de facto spouse. The receiving spouse must also be under age 65 or, if between 65 and 70, must have worked at least 40 hours over 30 consecutive days during the financial year.

Who can split super contributions?

To split super contributions, you and your spouse must be in a married (or de facto) relationship, but you can't be same sex partners. Also, to receive a contribution split, your spouse must be under 55 years of age or, if between 55 and 64 years, they:

- Are currently gainfully employed for 10 or more hours per week; or
- Although not currently employed for 10 or more hours per week, they intend to resume gainful employment for 10 or more hours per week; or
- Have never been gainfully employed for 10 or more hours per week.

What are the current income tax rates?

- **Marginal tax rates on income**

The following table summarises the tax rates that apply to residents in the 2007/08 financial year.

Taxable income range	Tax payable
\$0 – \$6,000	Nil
\$6,001 – \$30,000	15% [^] on amount over \$6,000
\$30,001 – \$75,000	\$3,600 + 30% [^] on amount over \$30,000
\$75,001 – \$150,000	\$17,100 + 40% [^] on amount over \$75,000
Over \$150,000	\$47,100 + 45% [^] on amount over \$150,000

[^] These rates do not include the Medicare levy (see below).

- **Medicare levy**

A levy of 1.5% is payable on the whole of your taxable income on top of normal marginal tax rates. If you earn less than \$16,741 pa (\$28,248 pa combined for couples) you are exempt from the levy. If you earn slightly more than these limits, the levy is phased in. An additional 1% surcharge applies to singles with an income (including reportable fringe benefits) over \$50,000 (\$100,000 combined for couples plus \$1,500 per dependent child) who have no private health insurance.

When can you access your super?

Your super can generally be accessed when you meet one of the following conditions of release:

- Retiring after reaching your preservation age (55 to 60 – see page 29)
- Leaving your employer after age 60
- Attaining age 65
- Permanent incapacity (specific requirements apply)
- Death
- Severe financial hardship (the amount is restricted and you must have received Commonwealth income support for six months consecutively or nine months cumulatively if aged 55 or over)
- Compassionate grounds (must be approved by APRA/ATO)
- Upon permanent departure from Australia for certain temporary residents holding a specific class of visa
- Leaving the service of your employer who has also contributed into your super fund – restricted non-preserved benefits only.

A transition to retirement pension (see Glossary) may also be commenced with preserved and restricted non-preserved benefits if you have reached your preservation age (see below).

Note: You can access unrestricted non-preserved benefits at any time.

What are the preservation ages?

The age at which you can withdraw your super (ie the age at which it's no longer preserved) depends on when you were born. The table below shows the current preservation ages.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
1 July 1964 or after	60

How long can I keep my benefit in super?

Effective 10 May 2006, you can keep your benefits in the accumulation phase of a super fund for as long as you like.

What tax is payable when a super benefit is received as a lump sum?

The table below summarises the tax payable in the 2007/08 financial year on a lump sum benefit paid from a taxed super fund (see Glossary).

Component	Tax payable
Tax free	Nil
Taxable:	
• If under age 55	• 21.5%*
• If aged 55 to 59	• First \$140,000 [#] is tax-free and the rest is taxed at 16.5%*
• If aged 60+	• Nil [^]

* Includes a Medicare levy of 1.5%.

[#] This low rate cap applies to the total of all taxable components (and post-June 1983 components prior to 1 July 2007) that are taken as cash at age 55 and over, and is indexed periodically in increments of \$5,000.

[^] Lump sum payments received at age 60 or over do not need to be included in your tax return.

Where you have a tax free and taxable component, each lump sum withdrawal will include both components in the same proportion as these components make up the total interest immediately before the withdrawal.

What is the Mature Age Worker tax offset?

This offset (with a maximum of \$500) is available if you are 55 years of age and over, and earn taxable income from personal exertion, including salary and wages, business income or personal services income. Taxable income from these sources also needs to be within the following limits:

Taxable income [~]	Offset available
\$0–\$10,000	5% of taxable income [~]
\$10,001–\$53,000	\$500
\$53,001–\$63,000	\$500 – [0.05 x (taxable income [~] – \$53,000)]
\$63,001 or more	Nil

[~] From personal exertion.

Example:

If you are 55 years old, with a taxable income from personal exertion of \$57,000 pa you may be entitled to a tax offset of \$300 – ie \$500 less 5% of (\$57,000 – \$53,000) = \$300.

What are the benefits of purchasing an income stream with superannuation money?

Rolling over your super to purchase an income stream can provide benefits which aren't available if you take your superannuation as a lump sum in the 2007/08 tax year. These include:

- Avoiding lump sum tax
- Investment earnings of the income stream accumulate tax-free
- A 15% pension offset on the taxable income payments received between age 55 and 59 (which means it's possible to receive up to \$38,684 pa tax free while you are in this age group)
- Unlimited tax-free[†] income stream payments at age 60 or over and you don't have to include these amounts in your annual tax return (which could reduce the tax payable on your non-super investments)
- A favourable social security treatment (which could make you eligible for, or increase your entitlement to, the Age Pension and associated benefits).

For further information on the benefits of investing in retirement income streams, see our brochure, *Retire in Style*.

[†] Assumes the income stream is commenced from a taxed super fund (see Glossary).

How are the income payments from a Transition to Retirement Pension (TRP) determined?

The minimum income that must be received each year from a TRP is calculated by multiplying the account balance at the start of the pension (and on 1 July each year) by a percentage that depends on your age – see table below. The maximum amount of income you can receive from a TRP each year is 10% of the account balance, regardless of your age.

Age at start of pension (and 1 July each year)	Minimum % of account balance that must be received
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 or more	14%

Note: An income payment may be deferred until the following financial year where a TRP is commenced between 1 June and 30 June. A pro-rata minimum payment is required if it is commenced before 1 June. The maximum income payment of 10% does not need to be pro-rated.

Example:

Peter turned 62 in June 2007 and on 1 July 2007 the account balance of his TRP was \$150,000. Based on his age, the minimum income he must receive in the 2007/08 financial year is 4% of his account balance, or \$6,000 (ie $\$150,000 \times 4\% = \$6,000$). The maximum income payment he could receive in the 2007/08 financial year would be 10% of his account balance, or \$15,000 (ie $\$150,000 \times 10\% = \$15,000$).

When can you access money invested in a Transition to Retirement Pension (TRP)?

In addition to the income limits outlined above, you can only take a cash lump sum (or purchase a different type of income stream) once you permanently retire, reach age 65, or meet another condition of release (see page 28). You can, however, transfer the money back to super at any time.

Glossary

Account based pension – An account in which you invest your super savings in exchange for a regular and flexible income.

Assessable income – Income (including capital gains) you receive before deductions.

After-tax benefit – Your super or income stream benefit after any lump sum tax is deducted.

Business real property – Any freehold or leasehold interest of a person in real property which is used wholly and exclusively in a business.

Capital gains tax (CGT) – A tax on the growth in the value of assets or investments, payable when the gain is realised. If the assets have been held by an individual, trust or super fund for more than one year, the capital gain often receives concessional treatment.

Complying super fund – A super fund that qualifies for concessional tax rates. A complying super fund must meet the requirements that are set down by law.

Condition of release – Circumstance upon which you can withdraw your super benefits (see FAQs on page 28).

Contributions tax – A tax of 15% applied to personal deductible and employer contributions made to a super fund.

Discretionary master trust – A type of super fund that offers similar investment flexibility to a self-managed fund without the burden of having to be a Trustee.

Disposal of asset – When an asset changes ownership, which can include means other than through sale (eg by gift). Relates to capital gains tax.

Employment termination payment – A payment made from an employer to an employee on termination of employment (previously known as an employer eligible termination payment).

Fringe benefit – A benefit provided by your employer in respect of employment. Super contributions made by an employer to a complying super fund are excluded from Fringe Benefits Tax.

Fringe Benefits Tax (FBT) – A tax payable by your employer on the taxable value of certain fringe benefits that you receive as an employee. The current rate of tax is 46.5%.

Gainfully employed – Employed or self-employed for gain or reward in any business, trade, profession, vocation, calling, occupation or employment.

Income streams – Investments that provide a regular income, such as an account based pension.

In specie contribution – The contribution of an asset into super rather than cash. It is achieved by transferring ownership of the asset to the super fund. Only certain types of assets can be transferred.

Mandatory employer contributions – Super contributions your employer is required to make on your behalf by law. Includes Superannuation Guarantee (SG) contributions and employer contributions required under an industrial award or certified agreement.

Marginal tax rate – The stepped rate of tax you pay on your taxable income (see FAQs on page 28).

Pension offset – A tax offset of 15% on the taxable income payments received from an income stream purchased with superannuation money between the ages of 55 and 59. The offset is also available before age 60 on death and disability benefits paid as an income stream.

Personal super – A super fund that is not sponsored by your employer, although your employer may be able to contribute to it.

Preserved benefits – Benefits that must be kept in the super system and cannot be withdrawn until you meet a condition of release (see FAQs on page 28).

Restricted non-preserved benefits – Non-preserved benefits that can only be withdrawn from the super system when you meet a condition of release (see FAQ on page 28).

Rollover – When you move your super benefits directly to a super or rollover fund.

Self-employed – To qualify as self-employed, you need to receive less than 10% of your assessable income, plus reportable fringe benefits, from eligible employment.

Self-Managed Super Fund (SMSF) – A super fund that has fewer than five members, where all members are trustees of the fund and all the trustees are members.

Tax deduction – An amount that is deducted from your assessable income before tax is calculated.

Taxed super fund – A super fund that pays tax on contributions and earnings in accordance with the standard super tax provisions.

Tax free component – That part of a superannuation benefit that is received tax-free.

Tax offset – An amount deducted off the actual tax you have to pay. You may be able to claim a tax offset in your end of year tax return (eg franking credits). Sometimes a tax offset may be taken into account in calculating your PAYG rates.

Taxable component – The remainder of a superannuation benefit after allowing for the tax free component. The amount of tax payable on the taxable component may depend on the manner in which the benefit is received (ie lump sum or pension), the age of the recipient, the dependency status of the beneficiary (death benefits only) and the size of the benefit.

Transition to retirement pension – An income stream that can be purchased with preserved or restricted non-preserved super benefits after reaching your preservation age (currently 55).

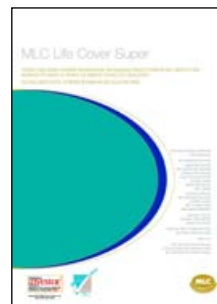
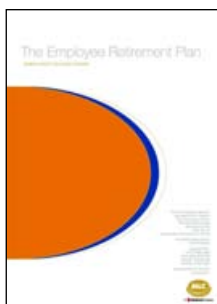
Unrestricted non-preserved benefits – Benefits that have met a condition of release and therefore can be withdrawn from a super fund at any time.

Unsupported – A person who is not eligible to receive superannuation from an employer.

Voluntary employer contributions – Include salary sacrifice contributions and contributions made by an employer that are discretionary (ie not mandatory).

Speak to your financial adviser about these solutions to grow your super and protect your assets.

For the latest Product Disclosure Statement, visit mlc.com.au or speak with your financial adviser.



Strategies 1, 2, 3, 4, 5, 8, 9, 10

Strategy 6

Strategy 7

How to contact us

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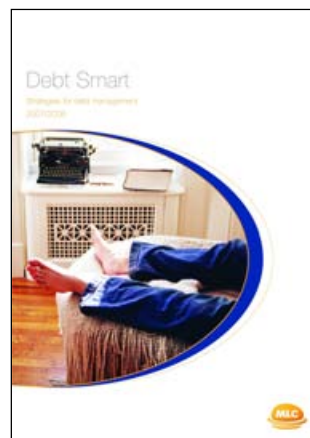
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