



ASHBY ROMA & CO

CHARTERED ACCOUNTANTS • MANAGEMENT CONSULTANTS

WHAT ARE SUPERANNUATION FUNDS (TAX BENEFITS)?

Disclaimer: This newsletter provides information of general interest to readers but does not constitute specific advice which they should seek independently.

Tax Status of Funds

If the Fund is not paying a pension it pays tax @ 15% on Income and Deductible Contributions

It pays 10% on Capital Gain providing investment held for more than 12 months

If paying a pension, earnings from funds invested for the purpose of paying pensions is tax free (including Capital Gains).

Tax on Superannuation Pension Income

If pensioner aged under 60 the taxable component of the pension payments are added to assessable income but subject to a 15% tax rebate.

The taxable component of the pension is the proportion of the payment coming from taxed contributions and taxed fund income.

If aged over 60 pension payments are non assessable and are not required to be included in the recipient's income tax return – they are tax free.

Pension Payments

Account based pensions are the most common type of pension. Individuals can now choose the amount they take from their account based pension each year.

A minimum amount of pension payment is required annually.

Minimum annual pension payments

| Age | Percentage Factor |
|------------|-------------------|
| Under 65 | 4 |
| 65 - 74 | 5 |
| 75 - 79 | 6 |
| 80 - 84 | 7 |
| 85 - 89 | 9 |
| 90 - 94 | 11 |
| 95 or more | 14 |

The above percentage factors have been reduced by 50% from 2008/09 to 2010/11 in recognition of the Global Financial Crisis.

Transition to Retirement Pensions (TTRP)

Provisions whereby a person who continues to work can commence drawing their superannuation pension to supplement their income prior to retirement..

Pension may only commence once person turns 55 yrs..

To access a transition to retirement pension a person must draw down the minimum annual payment, but the payment must not exceed 10% of the account balance. The 10% limit does not apply to persons over 65 years.

As with normal pensions paid to retirees, if pensioner aged under 60 the taxed portion of the pension payments are added to assessable income but subject to a 15% tax rebate.

If aged over 60 pension payments are non assessable and are not required to be included in the recipient's income tax return – they are tax free.

A transition to retirement pension does not affect members capacity to make contributions. Governed only by factors described under “Contributions”.

Lump Sum Payments on Retirement

Age 55 - 60

Super lump sums are partially taxable if paid after age 55 and before 60 as follows;

Tax free components (amounts not taxed in the fund) – non assessable

Taxable components (amounts taxed in the fund)

- \$0 to \$140,000 **Nil Tax**
- **Over \$140,000 maximum 15%**

Over Age 60

Lump sum is tax free but only if retired. Thus could not participate in TTRP above.

Taxation of Super Benefits on Death

Super benefits need to be paid out as soon as practicable after a member dies although the benefit may be paid in specie (transfer of assets in lieu of money).

15% tax is payable on a superannuation death benefit paid to a non dependant including adult children > 18 years.

No tax if paid to spouse, child < 18 years or financial dependant < 25 years.

The benefit can also be paid as a “reversionary” pension which is tax free if passed to tax free dependants (as above).

CONTRIBUTIONS

Deductible

Maximum Deductible Contributions

Aged < 50 \$25,000 per annum indexed

Aged > 50 \$50,000 until 30/6/12 per annum not indexed then reverts to \$25,000 per annum indexed. Special provisions if accumulated Super benefit < \$500K

If aged between 65 and 74 must work 40 hours in a 30 day period to qualify for deductibility (“work test”).

Deductible contributions include:

Employer Contributions to age 74

Salary Sacrifice Amounts to age 74

Personal Contributions to age 74

To claim a personal deduction, < 10% of the sum of assessable income for the income year + reportable fringe benefits + reportable employer super benefits must be attributable to their employment activity.

Undeducted Contributions

Under 65

Undeducted Contributions subject to annual cap of \$150,000.

Can also bring forward 2 years to make larger contribution of \$450,000 over 3 year period.

No work test required

Over 65

People aged over 65 to 75. Annual Cap of \$150,000. Cannot bring forward over 3 years.

Work Test applies (must work 40 hours in any 30 day period).

EXCESS CONTRIBUTIONS

Excess Undeducted Contribution

Contributions in excess of cap (above) are taxed at 46.5% (effectively the top marginal rate plus Medicare levy).

Excess Deductible Contributions

If deductible contribution greater than \$25,000 (<50 years) or \$50,000 (>50 years) is made, the excess is subject to “excess contributions tax” of an additional 31.5%.

This is in addition to the 15% tax levied on the full amount of the contribution.

If this contribution also causes undeducted contribution to exceed \$150,000 or \$450,000 cap, it is taxed again at 46.5%, total tax on excess becoming 93%.

AVOID EXCESS CONTRIBUTIONS

SUPER CO-CONTRIBUTION

You could receive up to \$1,000 tax free paid into your superannuation fund

You will be eligible for the co-contribution:

By making a personal undeducted contribution of up to \$1,000 p.a. into a complying superannuation fund prior to 30th June each year.

10% or more of your total income (being assessable income plus reportable superannuation payments and plus reportable fringe benefits) is from eligible employment, carrying on a business or a combination of both.

You are less than 71 years old at the end of the year of income.

Your total income is less than \$61,920 (2010/11)

The contribution is not claimed as a tax deduction.

Super Co-Contribution, Contributions & Thresholds

For 2010/2011 year, co-contribution you may receive is:

| <u>Income</u> | <u>Benefit</u> |
|---------------------|---|
| <\$31,920 | Max \$1,000 |
| >\$31,920 <\$61,920 | \$1,000 less 3.33¢/\$1 of income up to \$61,920 |
| >\$61,920 | Nil |

Undeducted contribution required to be eligible is:

| <u>Income</u> | <u>Contribution</u> |
|---------------------|-----------------------------------|
| <\$31,920 | \$1,000 |
| >\$31,920 <\$61,920 | \$1,000 less 3.33 ¢/\$1 of income |
| >\$61,920 | N/A |

SUMMARY

Pension Income **55 – 60 years** **Taxable in the hands of individual but subject to 15% rebate**

> 60 years **Pension income is tax free**

Pension Limits

Min 4% of opening pension account balance in < 65 yrs (reduced to 2% for 10/11) increasing with age as table Page 4.

Max 10% of opening pension account balance under TTRP to age 65 then unlimited.

Tax Deductible Contribution Taxed @ 15%

< 50 years **Limit \$25,000**

➤ 50 years **Limit \$50,000**

Undeducted Contribution - Not Taxed

< 65 years **Limit \$150,000 per year or \$450,000 over 3 years**

➤ 65 years **Limit \$150,000 per year (providing working at least 40hrs in any consecutive 30 day period)**