Super split set to save couples

From January 1 a split with your partner is advisable, reports **Tim Blue**

AS you pack up for the holidays with the pressies and the food, don't forget a notebook and pencil. Early it might be, but there's planning to be done for the new year. We are talking here about issues that will change your life and personal finances.

From January 1, it will be possible to split your future super contributions with a partner, under new rules just confirmed by the federal Government.

Doing so will deliver big savings on your tax bill, which in itself is no bad thing. When combined with this year's other big change — the new transition to retirement rules — it's a winning deal for the over-55s.

Say you are over 55 and earning a pre-tax income of $90,000 a year. Using the new transition rules and working with a salary-sacrifice strategy for super, as much as three-quarters of your $90,000 — a figure of $68,400 — can go into super. It will be taxed at 15 per cent going into the fund, which is a great deal less than your income tax rate, which will be somewhere between 31.5 per cent and an effective 48.5 per cent.

"That's a big tax saving itself," says Adelaide-based financial planner Theo Marinis of Marinis Financial Group.

The only difficulty with maximising super is that it is possible to hit the so-called reasonable benefit limits fairly quickly — that's the point when the concessional tax applying to super assets drops away. The current RBL figure on lump sums is $648,946.

Now work in the Government's super contribution-splitting rules that apply from January 1. They allow an effective continuation of tax-advantaged salary sacrificing, where one partner will be allowed to direct up to 85 per cent of their future salary-sacrificed funds into their spouse's super fund, to build up another tax-advantaged super balance of $648,946, in their name. So our wage slave on $90,000 a year who is whacking 75 per cent into super, can have 85 per cent of the 75 per cent going to his or her spouse. Putting so much of the main wage-earner's money into super might of course lead to strains — indeed hunger — but it makes the point of what has become available.

AMP Financial Services managing director Craig Dunn says big winners from the super contribution-splitting rules will be women, low-income earners and non-working spouses.

"Super splitting will give more Australians greater access to and control over their retirement savings," he says. "Giving couples access to separate superannuation accounts means both partners are able to take advantage of their own RBLs."

One dark cloud is the continued existence of age-based limits on how much can be put into super — a government speed limit to ensure it remains with enough taxable income to fund its activities. Anyone aged under 35 each year can direct $14,603 into super. Between 35 to 49, the cap is $40,560, rising to $100,587 for those over 50. There are other matters in super to think about, not forgetting other tax issues that have a bearing.

1. Maximise deductible super contributions

Ask your boss to maximise payments into your super. Employers can claim a tax deduction up to your maximum deductible contribution limit, set according to these age limits.

2. Offset capital gains tax

Having sold an asset and realised a capital gain, consider making a personal deductible contribution to super, if you are eligible to. You are not if you are getting more than 10 per cent of your super from your employer.

By claiming a tax deduction for an amount that offsets the assessable capital gain, it is possible to reduce and even eliminate CGT. Mr Marinis says "the super contributions claimed as a tax deduction will attract only a maximum 15 per cent contributions tax".

Remember that the extra 15 per cent super surcharge was dropped from July 1 this year. Planning to avoid CGT by delivering some into super becomes an even more valuable when you wish to sell an asset, contribute the sale proceeds to super and then immediately roll over to buy a rebateable income stream, such as a transition to retirement pension for those aged over their preservation age.

3. Salary sacrifice year-end bonuses

An increasingly popular practice. Your boss must agree, but these days most do.

Before you are told how big the bonus is going to be, you must elect to have it paid into a super fund.

One catch: you might be aware that you are going to get a bonus, but you must not be aware of the size of the bonus. Otherwise the ATO may disallow the claim.

4. Insurance

It is always good to buy personal insurance, such as death and total and permanent disability. Self-employed people especially can find this advantageous, as they can claim a tax deduction for super contributions regardless of whether the contribution is used to buy investments or to pay for insurance premiums such as those held in your super fund.

5. Negative gearing

One of the more widespread tax-planning methods is negative gearing, or borrowing so that the costs of doing so exceed any income, from say, share dividends. The essence of gearing to invest is that you get a tax deduction for your interest cost, while hopefully you accumulate a capital gain taxed concessionally (at the 50 per cent CGT discount).

6. Capital gain tax management

A big change for personal investors is in capital gains tax. Tax rule changes in recent years mean that assets held for more than 12 months, then sold, will be liable for CGT on only half of the realised gain. For a superannuation fund, the effective tax rate on such a capital gain has been reduced to 10 per cent. Anyone borrowing to acquire capital assets is essentially obtaining a tax deduction for their interest at their marginal tax rates then is only paying tax on half a capital gain. Other issues might be involved in taking a decision to gear an investment, but from a tax point of view it is easy to see that you don't need much of a gain to break even against your after-tax interest cost. Make sure the asset has been held for at least 12 months.

7. Keep using trusts

Taxation of trusts is still an area to watch. Mr Costello's coffers may be flush with funds, and we may all get a slice of it closer to the budget. But there are voices calling for broader changes, including the treatment of trusts. A truly courageous government might decide to tax trusts at the same rate as companies, as recommended in the Ralph Report. The Government might come out even by collecting more from trusts while handing out personal concessions, but those using non-fixed trusts, known as discretionary trusts, and many unit trusts may face a bigger bill.

Until then, distributions from trusts will be taxed in the hands of a beneficiary as usual. The good news is that the CGT discount is available in relation to these assets provided they have been held for more than 12 months. Of course it helps to choose the right super fund for your money. Figures from research house SuperRatings show the difference between the best and worst-performing super funds over the past five years can easily be 40 per cent.

So, going with the balanced option of a fund, if you had put $10,000 into the best fund on July 1, 2000, it could have been worth $16,270 by June 30, 2005. If you had chosen the worst, it would be worth only $10,676. Over a 40-year working life it makes a great deal of difference.

DOUBLE FOR NOTHING

With $600,000 already in his super, Jack wants to build Jill's super, while keeping up his take-home income. He salary sacrifices 76 per cent of his gross salary to his super, and uses his existing super balance to buy a Transition to Retirement allocated pension. He then directs his super fund to split 85 per cent of the salary super contributions to Jill. Meanwhile his income, which would have fallen to around $21,600, is topped up to former levels by the allocated pension income.

Jack's Super (with no split)

	Without income stream	With income stream + salary sacrifice
Opening balance	600000	**0**
Contributions	8100	**76500**
Earnings	42567	**5355**
Tax	7600	**12278**
Closing balance	643067	**69577**

Jack's Super (with split)

	Without income stream	With income stream + salary sacrifice
Opening balance	0	**0**
Contributions	0	**11475**
Earnings	0	**803**
Tax	0	**1842**
Closing balance	0	**10436**

Jill's Super (post split)

	Without income stream	With income stream + salary sacrifice
Opening balance	0	**0**
Contributions	0	**65025**
Earnings	0	**4552**
Tax	0	**10436**
Closing balance	0	**59141**

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