Budget changes good news for couples near retirement

Splitting with your spouse can be beneficial, writes **Tony Kaye**

THE raft of proposed superannuation changes in last May's federal budget, if approved, will give older Australians approaching retirement greater financial leverage than ever before.

One strategy that arises out of the proposed changes is for couples to take advantage of rule changes allowing funds to be transferred from one spouse's super account to the other's.

The introduction of splitting superannuation contributions from July 1 this year, for contributions made between January 1 and June 30 this year, has enabled couples to better manage their tax positions by allowing higher-earning partners to make contributions into the accounts of their spouse who is earning low or no income.

But under the Government's newer proposals, which would come into effect next financial year if approved, couples nearing retirement age would be able to gain an even greater financial advantage through what is being termed "reverse splitting", whereby the super funds of the younger spouse are transferred up to the older spouse.

The benefits of doing this actually link back to other proposed changes in legislation, including the scrapping of tax on superannuation earnings for those aged 60 years and older and the removal of reasonable benefit limits (RBLs), which currently restrict the amounts retirees can take from their super as a lump sum, or a pension income-stream.

Furthermore, when coupled with the recently introduced transition to retirement legislation, which allows workers aged 55 and older to stay in the workforce and begin drawing down from their superannuation pool, the reverse splitting strategy becomes even more powerful.

Under the transition legislation, eligible individuals can continue to work full-time and salary-sacrifice more pre-tax income into their superannuation, which will be taxed at just 15 per cent within the fund rather than at the individual's marginal tax rate, as high as 46.5 per cent.

Once accumulated funds are moved from superannuation into an allocated pension, the tax on investment earnings becomes zero.

Theo Marinis, financial strategist at Adelaide-based Marinis Financial Group, says that if all the proposals go through as announced on budget night, the benefits will be enormous on a range of levels.

"If all this comes to fruition, particularly with the removal of the RBL, where the strategy under the current rules would be to move money from the partner with the higher super balance to the partner with the lower super balance for RBL reasons, it would become the reverse situation," Marinis says.

Benefits: Theo Marinis

This is because the spouse who reached 55 years of age first could begin drawing down on their combined superannuation within the parameters of the transition to retirement legislation, and the spouse who reached 60 first would be able to earn tax-free income from their super funds.

"Let's say, hypothetically, a person salary-sacrificed $100,000 into superannuation between January 1 and June 30, 2006," Marinis says. "Contributions tax of $15,000 is deducted, leaving $85,000 of net contributions that have gone into the account since January 1 this year, when contributions splitting came in.

"That person can now elect to split that money with her older spouse after June 30, as long as her fund allows it. Because he has turned 55, he can now move that, with his other money, to a transition to retirement pension with all the advantages that go with that.

"It will give greater cash flow, tax efficiencies that come from the 15 per cent tax offset, which might help him to increase his salary sacrifice. If you're working as a couple, they will both be able to increase salary sacrifice because of the extra income they'll be able to generate from the super transfer to the older spouse.

"The more tax you're paying, the bigger the bang for your buck," Marinis says. "Transition to retirement is absolutely massive, and what the new rule changes are saying is, if there're no RBLs to worry about, it's very beneficial to use contributions splitting to maximise tax and other benefits."

Carlo Chiodo, senior technical specialist at Aviva Australia, says transition to retirement makes salary-sacrificing even more compelling.

"The reduction in tax rates means individuals have less tax to save by salary sacrifice, but on the other hand, because you have less tax, you have more income and can probably afford to salary sacrifice more," he says.

"The lower tax rate and tax-free pensions after 60 mean that the amount needed to salary sacrifice, and or to be taken as a pension, can be reduced, while maintaining net income. This means the same net income but even greater super benefits."