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SUPER – DOING IT FOR THE KIDS!

The new superannuation regime has improved the system for most people. However it's still important to plan ahead to ensure you make the most of the new legislation, says Adelaide based Financial Strategist, Theo Marinis from Marinis Financial Group.

The major new initiative is to simplify the Superannuation System, particularly Superannuation pensions for those over 60.

The Superannuation pensions will be tax free for those over 60 from 1 July 2007, but as Theo explains these funds must be in a pension account, not a Superannuation account. Funds left in a Superannuation account will still attract a tax rate of 15 percent.

"It's a whole new ball game, the new super system, with excellent opportunities for all but a lot of pitfalls for the unwary as well,' said Theo.

One of the most important pitfalls is the potential 'super death duty'. It is likely many parents will pass on the 'super death duty' to their non dependant adult children unless they seek ongoing financial advice.

The new Superannuation rules stipulate that only those over 60 can receive a portion of their superannuation funds (Post 1983) tax free. Any such benefit paid to non-dependant children under that age, when the parents die will still be subject to a tax rate of 16.5%; even though Mum and Dad could have withdrawn it tax free!

"As a result, financial advisers will be looking at numerous intergenerational wealth transfer strategies, although these will be subject to the final regulations introduced," said Theo.

"It's likely we will recommend people, at later stages in their lives, withdraw large amounts from their superannuation accounts, to pass on to their children tax free," he said.

Theo suggests parents in their later years give their children a tax free gift, but request their children sacrifice the equivalent gross salary into their own super accounts.

"This not only avoids the tax on the death benefit but also ramps up the effective gift to the children as they will be saving more into their super, net of the salary sacrifice than the parents have actually given them. It truly represents a fantastic intergenerational super wealth transfer opportunity from one generation to the next."

> *For example, parents would take from their superannuation pensions enough to cover their income needs tax free, and then an additional $26,750 from (as far as possible) their post 1983 amounts. This additional amount is given as a gift, tax free, to one of their children.*
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> *Their child, for example, in his forties, is very successful and is paying the top tax rate of 46.5 percent. The gift from his parents of $26,750 tax free represents the equivalent of $50,000 of his gross income. By sacrificing $50,000 of his income to his Superannuation account via salary sacrifice; his $50,000 of earning is only taxed 15%, by the fund.*
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> *Simply put, the son will be saving $42,500 net into his superannuation account. His family are no worse off; the net salary he has forgone to the salary sacrifice to his Superannuation account has been replaced by the tax free gift from his parents.*
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> *Had the parents left the funds in their Superannuation pension for their child to collect, after both their deaths, the child would have been liable for approximately $4,414 in tax on this $26,750 gift if received instead as a death benefit super payout.*

Theo warns, "younger people will not be able to increase their super contributions as they get older, as under the current rules they need to contribute super as soon as they can, for as long as they can and as much as they can."

"Intergenerational super wealth transfer strategies such as this one, will ensure people who might not otherwise be able to afford to contribute to super while paying mortgages and raising children of their own, will be able to do so with some assistance from their retiree parents, while the parents can see the benefits of their generosity," said Theo.

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