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THE NEW SUPERANNUATION PARADIGM

The New Superannuation Paradigm - Get Into It - As Soon as You Can, As Much As You Can, For As Long As You Can!

One financial strategy for those looking to retire very soon is to sell any shares and/or investment property and put the funds into superannuation.

Due to the enviable tax concessions, this is definitely a positive move especially when you look at some of the new and proposed regulations.

For many years, professionals have been telling people, particularly in the years leading up to retirement to invest in superannuation unless your tax structure outside super is as good or better (which is unlikely in many cases).

In the past, some offsetting disadvantages of super were:

1. Funds had to come out after age 65 in many cases, at least enough to pay minimum allocated pension levels

2. There was income tax on pension payments

3. Eligible Termination Payments (ETP) tax on lump sums

4. Reasonable Benefits Limits

The 2006 Budget Proposals are set to remove all of these concerns -

1. No longer is there a need to take funds out - and lower minimum pension payments, if you chose to start a pension (so as to save further tax on investment earnings)

2. No income tax on pension payments after age 60

3. No ETP tax on lump sums after age 60

4. No Reasonable Benefits Limits

Adelaide based Financial Strategist, Theo Marinis of Marinis Financial Group states *"Super has become a hot issue and is hot topic of discussion at dinner parties. As a result, many of our clients are already selling assets and contributing to super now, even though they may be some time away from fully retiring!"*

This strategy is especially important for people looking to retire pre 30 June 2007 and to take advantage of the transitional rule, to contribute up to $1 million in post tax contributions, prior to that date.

Marinis points out that "*Capital Gains tax will obviously be a factor on the sale of such assets, requiring careful consideration, however the long term benefits often far outweigh some short term tax pain."*

For example, consider Ted, aged 61, unmarried and intending to retire at 64. Ted is considering selling investment property assets worth $2 million, with an estimated net of capital gains tax value of $1.7 million. He seeks to invest the net proceeds into superannuation to ensure he will maximise his tax effective income in retirement. The biggest question is when to sell the non super assets?

If Ted sold his property after 1 July 2007, the maximum he could contribute to superannuation until age 65 would be only $750,000 (depending on his date of birth and the date he ceases work).

However, if Ted sold the property in the current financial year and ensured the proceeds were also received in this financial year, assuming no other personal contributions were made since 9 May 2006, Ted could contribute the entire $1.7 million before reaching age 65. The following table shows how and when.

Financial year	**Maximising personal contributions**	
	2006/2007 sale	**2007/2008 sale**
2006/2007	$1 million	$ -
2007/2008	$150,000	$150,000
2008/2009	$150,000	$150,000
2009/2010	$400,000	$450,000
Total contribution	**$1.7 million**	**$750,000**

By selling the investment in the 2006/2007 financial year, Ted is able to contribute $950,000 more of the asset proceeds into superannuation. He could also make an additional $50,000 post tax contributions in 2009/2010 if he had the additional funds available to do so, by that time.

Additionally, since such a large capital gain has been realised, it may be that Ted's employment income is less than 10% of his total assessable income. If this is the case, Ted could also make a $105,113 contribution for which a deduction is claimed to offset some of the tax on the capital gains, in the current financial year.

Given the new cap on taxable contributions from 1 July 2007, Ted would not be able to benefit to the same extent after that date, as his employer's superannuation contributions would limit the amount of personal deductible contributions he could also make.

Marinis goes on to state that *"Future retirees may also benefit by investing dollars into superannuation as undeducted contributions now and locking into Term Allocated Pensions (TAP's) before 20 September 2007. This is because of the removal of the Centrelink asset test exemption for any TAP's acquired post 20 September 2007 and the simultaneous halving of the Asset Taper rate after that date."*

This means that after 20 September 2007, you will not be able to use TAP's to reduce your Centrelink assessable assets so as to improve your entitlement to age pension.

As a trade off the government by halving the taper rate after that date and has made it possible for people to get some age pension even though they would not be eligible under the current, less generous Asset Test thresholds and taper rates.

Consider Jan, who at 1 July 2007 will be a 65 year old single homeowner with $500,000 in super benefits. What would be the before and after age pension outcome if she split her $500,000 equally between a growth and allocated pensions, well before 20 September 2007?

	Current (pre 20/9/07 **growth & allocated**	New (Post 20/9/2007) **growth & allocated**	New (Post 20/9/2007) **allocated pension only**
Excess assets	$207,040	$207,040	$332,040
Pension reduction pf	$621	$311	$498.06
Age pension pf (pa)	$0 ($0)	$214.70 ($5,582)	$27.64 ($719)

Assumptions at 1 July 2007:

- Asset test threshold: $167,960
- Age pension rate: $525.70 pf

What the table above demonstrates is that if Jan were to invest half her super into a TAP well before 20 September 2007, only half the money invested in the TAP would be assessed for Centrelink Asset Test purposes indefinitely.

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Whist under current Asset Thresholds, Jan would not be eligible for any Age Pension (Column 2 above) once the new taper rate takes effect from 20 September 2007, she would qualify for approx $214.70 pf of age pension in age pension (Column 3 above) as compared to only $27, .64 pf also after 20 September 2007, if she simply invested it all in an Allocated Pension (Column 4 above).

In addition Jan will still have access to her $250,000 invested in Allocated pension for lump sum needs. Her minimum Allocated pension income will provide approx $14,451 pa plus a TAP pension of approx $12,500 pa (for a TAP designed, in this case, to last to age 100!) for a total minimum tax free income of $32,533 pa, including the part Age pension.

According to Marinis *"This is a once in a lifetime opportunity, as it equates effectively to almost a 100% Asset Test exemption for those that lock into a TAP before 20 September 2007, based on current Asset Test thresholds!"*

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Disclaimer

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