TIM BLUE

Sprint is on for super smorgasbord

BANG went the starter's gun on super this year. It's time for baby boomers jogging up to retirement to break into a sprint, as the Government flags that it is dinkum about helping us build our retirement income.

Changes to apply from July 1 make it worth considering whether to toss everything into super — the investment property, the shares, the stamp collection — to boost your retirement income. Don't worry about the impact on pensions, as the rules get easier there, too.

One change is the dropping of reasonable benefit limits on concessionally taxed super. In a sense, it will all be concessional — all super benefits will be tax free, provided you are over 60 and wait until July.

Another change will allow you to make $1 million in contributions to super, before July. After that date, only $150,000 a year can be contributed, though transitional arrangements will allow you to bring forward two years of contributions, to make a total of $450,000 (if you are under 65). As financial planners Fiducian says, "this is unmistakably a window of opportunity".

Clearly the Government is saying it's just fine for your super fund to grow as big as you want it to be. A single person can add $1.45 million and a couple can put $2.9 million into super over the next six months, as long as it is planned correctly.

Adelaide-based financial strategist Theo Marinis says: "Many of our clients are already selling assets and contributing to super now, even though they may be some time away from fully retiring."

Some matters will need to be watched, such as capital gains tax liabilities.

Take Ted, aged 61, unmarried and intending to retire at 64. He wants to sell his investment property, worth $2 million — perhaps $1.7 million after capital gains tax — and put the proceeds into superannuation. The question is, when to sell the property?

If Ted sells after July 1, 2007, the most he could contribute to superannuation before age 65 would be $750,000 — he would be too late to use the $1 million concession allowable this financial year.

But if Ted sold now he could put all the $1.7 million net proceeds into super. Table one shows the timing and amounts. By selling in the 2006-07 financial year, Ted would be able to put much more — $950,000 — of the proceeds into super. He could also contribute another $50,000 in 2009-10, and claim a tax deduction for doing so.

But with the property market looking soft in some states, Ted may not want to sell right now. One way to buy time would be to borrow $1 million, at least until the time came to sell the property, according to Aman Ramrakha, head of technical services at Westpac Financial Planning. "He could look on it as bridging finance, with the loan paid back when the property is sold. And with the bigger super balance, he could start a transition to retirement pension to fund the short-term borrowing costs."

Given Ted's big capital gain, it might be that his regular employment income was less than 10 per cent of his total assessable income. If so, Ted could also make a $105,113 contribution for which a deduction could be claimed to offset some of the CGT in the current financial year.

Given the new cap on taxable contributions from July 1, 2007, Ted would not be able to repeat the exercise to the same extent after that date, as his employer's contributions would leave little room for him to make a personal deductible contribution (such as the $50,000 mentioned above).

SUPER DUPER

Table 1: Maximum personal contribution

Financial year	2006-07 asset sale ($)	2007-08 asset sale ($)
2006/2007	1 million	Nil
2007/2008	150,000	150,000
2008/2009	150,000	150,000
2009/2010	400,000	450,000
Potential Total	1.7 million	750,000

Table 2: How pensions could benefit

	Pre Sep 20, 07 treatment of TAP and allocated ($)	Post Sep 20, 07 Treatment of TAP and allocated ($)	Treatment of TAP and allocated bought after Sep 20, 07 ($)
Excess assets	207,040	207,040	332,040
Pension reduction per fortnight	621	311	498
Age pension per fortnight	0	214.70 (5582 a year)	27.64 (719 a year)

Notes: As at July 1, 2007: Asset test threshold: $167,960. Age pension $525.70 a fortnight. Source: Westpac Financial Planning

Not everyone, of course, is as asset rich and cash poor as popular myth would have it. Many may be keen to keep access to an aged pension. The good news here is that the Government will make it easier to do so after September 20, 2007.

It will halve the pension assets test taper rate from $3 per $1000 to $1.50 per $1000 for every $1000 above the threshold. It means the assets test will be less harsh.

A couple will be able to have assets of almost $783,000 (singles $494,000) and still qualify for a pension and the benefits that go with it, such as a pensioner concession card.

The trade-off is that "complying" income streams will be counted at 100 per cent of the account balance — not 50 per cent as before — when counting assets for the test. Theo Marinis suggests that retirees can pick up the existing concession if they invest some of their super in a concessional income stream, such as a term allocated pension (TAP). "But you must act before September 20, because after that date the TAP will lose its concessional status," he said.

"You won't be able to use TAPs to reduce your Centrelink assessable assets so as to improve your entitlement to an age pension."

Consider Jan, a single homeowner with $500,000 in super, needing a retirement income of around $30,000 a year after tax. What happens if she splits her $500,000 equally between a TAP and an allocated pension, ahead of the September 20 deadline?

As Table Two shows, if Jan invested half her $500,000 super into a TAP before September 20, 2007, only half the money invested in the TAP would be assessed for Centrelink Asset Test purposes, and indefinitely.

Under current under asset test thresholds, Jan would not be eligible for any age pension once the new taper rate takes effect from September 20, 2007. And if she delayed the purchase beyond that date, she would only qualify for $214.70 a fortnight of age pension. But by acting early, Jan will increase her age pension by $4863 and reduce the draw on her income streams by the same amount.

In addition, Jan will still have access to her $250,000 in the allocated pension should she need it. Her minimum allocated pension income will provide close to $14,500 a year, and with the TAP pension of approx $12,500 a year she will enjoy a total of at least $32,582 a year tax free, including the part age pension.

Little wonder the planners call it a window of opportunity. According to Marinis "The outcome for Jan means she effectively gets an almost 100 per cent asset test exemption if she locks into a TAP before September 20, 2007, based on current asset test thresholds."

The new rules

- **All superannuation benefits to be tax free from July 1, 2007, for people over the age of 60.**
- **Reasonable benefit limit rules, which impose tax penalties if you save too much in super, will be scrapped from July 1.**
- **Improved Capital Gains Tax rollover provisions.**
- **Improved Centrelink taper rate after September 20, 2007.**
- **Undeducted, or personal, after-tax super contributions will be capped at $150,000 a year from July 1. As a transitional measure, $1 million can be contributed before July next year.**
- **Deductible contributions will be limited to $50,000 from July 1.**
- **Removal of the 50 per cent Centrelink exemption for any TAP acquired after September 20, 2007.**

Action: Theo Marinis says 'many of our clients are already selling assets and contributing to super now, even though they may be some time away from fully retiring'

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