Unique Super Opportunity for Eligible Doctors

Australian doctors working within the public hospital system have a unique opportunity to 'super charge' their retirement savings and reduce the tax paid on a large portion of the earnings to no more than 16.5%, says Adelaide based financial strategist Theo Marinis.

"Under the Australian constitution, the Federal Government cannot tax state governments and therefore State Government superannuation funds. This is how such funds earn the title 'Constitutionally Protected Funds' (CPF).

Constitutionally Protected funds therefore, (as confirmed by the Australian Taxation Office (ATO) information paper "Super Contributions – for defined benefit and untaxed funds") are unaffected by the recent budget changes which limit super contributions to $25,000 per annum (under age 50) and $50,000 per annum (over age 50)" Theo said.

"Provided the CPF is willing to accept additional contributions (and various other legal requirements are satisfied) then the doctor making such contributions is free to do so. An upper limit of $1.1 million (indexed) however, applies to benefits transferred out of the CPF environment, consequently careful planning is vital.

"The benefits provided by this opportunity are illustrated in the following example:

A 45 year old Orthopaedic Surgeon, working 20% of his/her time at two of Adelaide's teaching hospitals and receiving $161,000 per annum from each source for this work, also has the maximum combined employer Super Guarantee (SG) of $28,922 from these two employers (the maximum threshold of the 9% SG payable in 2009/10) paid into his/her superannuation fund. In addition, earnings from private practice total $700,000 per annum.

Superficially, the usual SG contribution of 9% (or $28,922) would breach the eligible limits for someone under age 50 and create a tax liability for the excess SG contributions.

"If, however, the super funds of both teaching hospitals are Constitutionally Protected, the doctor can legally salary sacrifice up to 100% of his/her public hospital income to superannuation (potentially $322,000) with no tax liability being generated and cutting the tax paid on the majority of this income from 46.5% to zero.

"The Federal Government will however, get its slice in the future with a tax of 16.5% on the withdrawal of the fund balance, but in the meantime the tax deferral has contributed to the considerable growth of the funds in the accumulation phase.

"Obviously, the benefits of such an opportunity will depend significantly on employment arrangements (for example is the doctor an employee of the hospital or is he/she contracted to provide a service), the hospital's procedures and the CPFs own limits on such super contributions.

In addition, beware of excess contributions as the tax take can be up to 46.5% on lump sum withdrawals therefore careful financial planning is required.

"Experience with superannuation over the last 20 years tells me that inevitably the Federal Government will close this opportunity, subsequently I would advise doctors who are members of, or who are able to become members of Constitutionally Protected super funds seek independent advice and to act promptly.

Financial Strategies (SA) Pty Ltd trading as Marinis Financial Group ABN 54 083 005 930
Australian Financial Services Licence No: 326403

In the meantime, based on the premise that superannuation law traditionally 'grandfathers' changes, future legislation has not been retrospective in respect of strategies which are implemented within current legislative parameters.

-o0o-

For further information please contact:

Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategies (SA) Pty Ltd
Trading as Marinis Financial Group
T 08 8130 5130
F 08 8331 9161
M 0412 400 725
E admin@marinisgroup.com.au
A 67 Kensington Road
NORWOOD SA 5067
W marinisgroup.com.au