SUNDAY BUSINESS

with ANTHONY KEANE

Seven superannuation tax breaks that can help you retire sooner

Superannuation is commonly mistaken as an investment, when it is actually a tax structure used to hold investments. That structure comes with tax incentives and tax deduction opportunities that can deliver tens – even hundreds – of thousands of extra dollars at retirement.

There are tax benefits for savers of all ages and incomes, but financial planners say many are underused.

Retiring early can be achieved by injecting as much money as possible, as soon as possible, into low-tax super, which becomes no-tax super for most retirees aged over 60.

Marinis Financial Group managing director Theo Marinis says most Australians do not understand super's tax opportunities.

"If they did, I'd be out of a job," he says. "You can save tens of thousands of dollars in tax by taking advantage of these strategies, including the government throwing in co-contributions for you.

"If you're saving $5000 a year in tax, you're not doing anything wrong. You are just taking advantage of the rules. $5000 a year for 20 years is $100,000, plus what it earns along the way."

Here are six super tax breaks and incentives to make a big difference.

1 TAX-DEDUCTIBLE CONTRIBUTIONS

Most money that goes into your super is taxed concessionally at 15 per cent, rather than existing income tax rates of up to 47 per cent, and these concessional contributions can also deliver tax deductions.

Employer contributions and salary sacrifice are examples of concessional contributions, which have an annual cap of $27,500 per person.

For medium- and higher-income earners, putting gross wages into super rather than taking it as after-tax pay delivers significant tax deductions.

However, experts say be careful your combined concessional contributions do not exceed the annual cap.

2 CATCH-UP CONTRIBUTIONS

Since July 2018 Australians have been able to make carry-forward, or catch-up, contributions to their super of the unused portion of their annual concessional caps.

JBS Financial Strategists CEO Jenny Brown says carry-forward contributions are worthwhile looking into if you have room in your cap.

They could be cleverly employed in a year when you have a large capital gain from the sale of shares and property, and could be used to offset some or all of the capital gains tax bill.

But there are rules – including that nobody can make carry-forward contributions if their super balance already sits above $500,000.

Ms Brown said it was wise to keep on top of the limits and rules.

"If in doubt, seek advice," she said.

3 DOWNSIZER CONTRIBUTIONS

This is a relatively new super tax break and allows people to pump extra money into super from the sale of their family home.

The reason for boosting wealth inside superannuation, rather than in outside investments, is because once you turn 60 and retire you can switch your super from the low-tax accumulation phase to the no-tax pension phase. People can now hold up to $1.9m in a personal account-based pension, which has no tax on income, capital gains or withdrawals.

Brown says the downsizer rules confuse people "because it's changed so many times".

"You can now do it from the age of 55," she said, providing you satisfy the rules, which include a cap of $300,000 per person that sits outside other super contribution caps.

4 NON-CONCESSIONAL CONTRIBUTIONS

Like downsizer contributions, these do not deliver tax deductions but do allow big chunks of wealth to enter super quickly.

Tribeca Financial CEO Ryan Watson says non-concessional contributions are key for savers.

"While they don't attract a discounted tax rate, it does allow you to get additional funds into a tax-effective environment, which will in turn provide a tax-effective investment in time," he says.

And we're talking a lot of additional funds – $110,000 per year, per person can be made in non-concessional contributions, and two future financial years can be brought forward. So someone who times things right could put $110,000 into their super in June, then another $333,000 after the new financial year begins on July 1.

But remember, this money could be locked away for many years.

"One of the key restrictions with superannuation is that there are strict rules around accessing the funds, and these rules depend when you were born," Watson says.

"The earliest you can access funds is aged 55, but for the majority of Australians it is 60.

"If you want to retire prior to 60, you will need to have funds outside superannuation to live off before you reach 60 and can access your superannuation via a lump sum or income pension stream."

William Buck Wealth Advisory director Aaron Trombetta says consider building a non-super investment portfolio too "that can continue to generate passive income from the moment you stop working".

"Adopting an integrated approach to wealth creation is really the key to being in a position to fund an early retirement," he says.

5 CO-CONTRIBUTIONS

Not every super tax break is designed for people with big incomes.

The co-contribution scheme delivers a 50 per cent financial return for lower-income earners who make a $1000 non-concessional contribution each year, because the federal government will add $500.

Tribeca Financial chief executive officer Ryan Watson.

Investment's battle of the acronyms has a winner

Anthony Keane

They are investment acronyms with only one letter different, but their impact on people's wealth has been anything but similar.

In the battle for investors' hearts and bank accounts, ETFs and NFTs both deliver valuable lessons.

However, there is just one long-term winner.

ETFs and NFTs are the latest in a long line of acronyms that can confuse Aussie investors.

For example, you can buy ETFs on the ASX but not NFTs, which you instead purchase using BTC or ETH. Here's another acronym: WTF?

ETF is short for exchange traded fund – an investment listed on the stock exchange that spreads your money among stocks representing an entire share market index or from a sector such as robotics, commodities or renewable energy. They are also known as index funds because many mirror a specific index such as the ASX 200, or the S&P 500 in the US.

NFT is short for non-fungible token, a unique piece of digital art, video, in-game item or other data stored on a digital ledger known as blockchain and bought using cryptocurrencies. NFTs went nuts in 2021, with some soaring in value as collectables.

Bored Ape Yacht Club NFTs – cartoon-like images of weirdly dressed chimpanzees – went bananas, rising from $250 to $540,000 in a year, but they have since dropped about 80 per cent.

ETFs are now worth about $15 trillion globally and have won praise from successful investors such as billionaire Warren Buffett, while NFTs were owned or promoted by Madonna, Paris Hilton, Snoop Dogg and Eminem.

There's no law saying NFTs won't boom again, just as cryptocurrency did in 2017 and 2021. But they still are created from thin air and only given value by what someone is willing to pay. Their so-called uniqueness is lost when creators produce thousands of copies of the same image, video or file to flog them individually online.

Meanwhile, ETFs remain a relatively new investment type – they've only taken off in Australia in the past couple of decades – but are used widely by investors, financial planners and superannuation funds.

Management fees are cheaper when an investment tracks an existing index, and low-cost index fund options have emerged everywhere.

Importantly, ETFs haven't lost more than 80 per cent in value in the past 18 months.

The biggest lessons from NFTs are around the dangers of putting your money into fads, and expecting that something created out of nothing will endlessly rise in value. At some point the house of cards collapses.

Experts say there is a future in blockchain, the technology behind cryptocurrencies and NFTs, but there have been so many millions created in recent years that supply and demand got way out of whack – especially when they don't deliver any income to investors.

More positive lessons have flowed from ETFs, such as why it's wise to diversify your investments to smooth out the ups and downs.

On the stock market you can buy one company that either succeeds or crashes, or you choose an ETF that manages risk much better.

Some ETFs have entered fad territory and tried to follow the latest trend but performed poorly. ETFs focusing on cryptocurrencies were launched just as the crypto boom turned into a bust. Bad timing there.

The low cost and diversification benefits of ETFs mean their popularity will continue to boom. NFTs might boom too, of course, but they also may turn into a pile of digital dust.

Scott Pape is on leave

The maximum co-contribution goes to people who earn less than $43,445 this financial year. It's a great tool for part-time workers or young employees to fuel their nest eggs.

At least some co-contribution is possible for people aged under 71 and earning less than $58,445.

"The government co-contribution, of up to $500 on a $1000 contribution for low- to middle-income earners, can provide a strong return on capital," Mr Trombetta said.

6 SPOUSE CONTRIBUTIONS

Anyone with a low-income spouse can get up to $540 back from the tax office via a tax offset if they pump $3000 into their spouse's super account.

For the full offset, the spouse must earn less than $37,000. It phases out completely at $40,000.

Ten years of spouse contributions could claw back $5400 from the ATO while boosting a low-income partner's nest egg by $30,000, which could compound and multiply over decades.

"Adopting the appropriate strategies has the potential to significantly boost your nest egg when you consider that the maximum tax rate within super is 15 per cent, compared with the highest personal income tax rate of 47 per cent," Mr Trombetta says.

"Taking into account the compounding effects, for some people the additional tax-effective returns generated could potentially fund years of their desired retirement lifestyle."

7 TAX-FREE PROPERTY INVESTMENT

You'll need a self-managed super fund for this one, but the benefits can run into hundreds of thousands of dollars.

Residential property investors typically pay capital gains tax when they sell.

CGT usually adds half of your sale profit – or capital gain – to your taxable income in the financial year an asset is sold.

It can potentially push total income into the top tax bracket of 47 per cent.

For a $250,000 net capital gain that could be extra tax of $117,500.

But if you buy a property in a SMSF then hold it until you retire after 60 and move your super to pension phase, the CGT payable drops to zero.

"Super is the lowest tax vehicle available but it requires care and understanding in making it work most effectively for you," Trombetta says.

"One of the biggest risks is making a decision without seeking personalised advice from an experienced professional."

Marinis says there is plenty of information available online about super tax benefits and options, but sometimes it is best to "speak to someone" in the know.

"Most super funds have got online information that explains the concepts, but if you don't understand how it works it means nothing to most people," he says.

Tribeca's Watson says professional advice could help prevent the penalties imposed on super mistakes.

"Given that the rules around superannuation and generating tax breaks can become complicated, please tread with caution," he says.

"As with anything in our life of significant importance, always seek professional advice."

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Mark Goulopoulos
Cumulus Wealth

BUY

Evolution Mining (EVN)
Reducing rates of cost inflation combine with resilient gold price and solid production to yield strong cash flow over medium term.

Technology Metals Australia (TMT)
Major milestones at the Murchison Technology Metals Project are approaching as the company continues to progress Australia's next pure vanadium mine.

HOLD

Reece (RHC)
The plumbing and bathroom supplies company is a well-managed business heading into challenging economic conditions. A key portfolio holding for the long term.

The Lottery Corporation (TLC)
This is a very consistent and predictable business with strong cash flows but relatively low rates of growth. Provides resilience in turbulent times.

SELL

Commonwealth Bank of Australia (CBA)
The economic headwinds of very high interest rates and a slowing economy mean profit growth for the bank is likely to be elusive for some time.

Qube Holdings (QUB)
It controls very high-quality assets but has struggled to generate meaningful shareholder value for over a decade.

Jed Richards
Shaw and Partners

BUY

Seek (SEK)
This firm is cemented jobs and we expect more growth over the next two years. It has a relatively low trading price and an increasing dividend.

Orora (ORA)
Its share price fell after news of a major acquisition and capital raising. The acquisition nearly doubles the size of Orora.

HOLD

Treasury Wine Estates (TWE)
The Penfolds brand name remains a global leader and provides most of the profits to Treasury. The company's share price remain 20 per cent lower than anticipated.

Telstra (TLS)
Telstra shares have a dividend yield in excess of 4 per cent. Revenues are still growing, and this translates to consistent growing profits.

SELL

Atlas Arteria (ALX)
We see a lack of growth in the road assets, and high debt levels should reduce investor appetite as global interest rates remain high.

Perpetual (PPT)
It recently missed consensus expectations for the annual result, which was down 40 per cent. The Pendal acquisition is performing worse than expected.

Will gold coins become tax office treasure?

Money Man
Brenton Miegel

Q: I'm in my late eighties. Many years ago I purchased some 1oz gold coins, and I am wondering about the tax implications of gifting some to my grandchildren. Can you offer any advice?

A: When disposing of an investment in collectables, including gold coins/bullion, it would be assessable for capital gains tax (CGT) purposes should you make a gain on the purchase price. As with all investment assets, if you have held the asset for more than 12 months, only 50 per cent of the gain would be assessable for CGT purposes. Importantly, CGT is not a separate tax. The assessable gain forms part of your taxable income and you are taxed at normal marginal tax rates. As a senior Australian, you would also be entitled to SAPTO – the Seniors and Pensioners Tax Offset. This means that you can earn up to $32,279 (as a single) or $28,974 (each member of a couple) before you pay income tax. You may want to speak with an accountant or licensed tax adviser prior to disposal (gifting in your case) to understand the taxation implications for your personal situation. You should also be cognisant of the gifting rules that apply should you be in receipt of any income support from Centrelink.

Q: I would appreciate your advice regarding my grandsons' HECS debt. I am considering paying half. One has a mortgage and the other is renting. I have read that this debt can be detrimental if you are applying for a loan. Any suggestions you have would be helpful.

A: HECS (or HELP) loans are generally repaid as part of your income tax payments each year. The compulsory repayments commence when your salary is greater than $51,550 (for the 2023-24 financial year). The compulsory repayment rate increases as your salary increases, commencing at 1 per cent of your salary and maxing out at 10 per cent of your salary if and when your income exceeds $151,201. Voluntary repayments can also be made at any time, and are non-refundable (once the payment is made, you can't "redraw" it). Any assistance you can offer by helping reduce your grandsons' HECS debts would, I'm certain, be welcomed. If you are on Centrelink income support, be aware of the gifting rules and how this may impact your situation. As far as I am aware, HECS/HELP loans are included as part of the assessment for home loan purposes (and other loans). Thus, any assistance to reduce the HECS/HELP debt can assist in this regard.

EMAIL YOUR QUESTIONS TO SUNDAYMONEY MAN@NEWS.COM.AU

Brenton is a director and an authorised representative of Goldsborough Financial Services Limited. His advice should be considered as an opinion. Readers should consider engaging their own personal financial adviser. Questions and answers may have been edited for length.

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