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‘Money for nothing’ – if you know where to look

By Theo Marinis

“Taxpayers who understand the benefits of superannuation Concessional Contributions are picking up money for nothing”, according to Adelaide based financial strategist Theo Marinis.

“I am reminded of the case of one of my clients, ‘Samantha’ (a former public servant and a member of the Commonwealth Superannuation Scheme - CSS) who, with the help of our strategic advice, was able to access the benefits of a CSS ‘54/11’ strategy.

As part of our recommended strategy (as an alternative to 100% reliance on her ‘unfunded’ government retirement income eroding with the ravages of inflation) she cashed part of her CSS benefit and invested it in the markets via a combination of super accounts and Account-Based Pensions (ABPs).

Samantha’s annual taxable income was currently $55,217; this includes retained CSS pension of approximately $47,302 p.a. (Her gross annual income was, in fact $58,325 as she also had tax free ABP income of $3,108 pa).

She estimated that she was in line for a tax bill of just over $2,000 for 2017/18, but she decided that this year, she would not make a Concessional Contribution (CC) to super as it was “not worth the effort.”

Now, Samantha has an excellent understanding of taxation and superannuation issues, and as a former PAYG employee, she felt that a tax bill of around $2,000 on a taxable income of approximately $55,000 p.a. was OK (which is a reasonable assumption, if you take a take the strictly linear approach that the net tax benefit of her CC strategy was only around $940 pa).

In fact, by making a concessional contribution in June 2018, she would in fact (as she did last financial year) be able to create a NET tax saving of approximately $5,000 – as well as a further boost to her super savings pool.

To demonstrate that there was a 360 degree perspective to this strategy, however, we needed to revisit her 2016/17 tax year results, which saw:

a) **Samantha receive a net tax refund of $7,567 of the tax withheld by Commonwealth Superannuation Scheme on her final 2017 tax assessment, and;**

b) **a net tax saving (after allowing for 15% contributions tax) of $4,782**.

How did this work?

- In 2017, using funds from her savings, Samantha made a tax deductible/concessional contribution to super of $30,721, which reduced her taxable income to $24,496.

- Without the CC tax deduction, her <u>taxable income</u> would have remained at $55,217, made up of her gross CSS pension, plus her taxable ABP and bank interest. (Samantha’s <u>gross</u> income was in fact $58,325 as she also had tax free ABP income of $3,108 pa).

- The tax payable on the $55,217 <u>taxable</u> income with <u>no</u> CC tax deduction would have been $1,847 even after allowing for the $7,851 in PAYG Withholding Tax (PAYG WHT) and the $726 ABP tax Offset (which the government permits).

- Without her CC tax deduction last financial year, Samantha would have received a Notice of Assessment advising her to pay the ATO $1,847 (as she quite happily told me she had expected to pay when we started this discussion).

— However, Samantha had forgotten to also allow for the PAYG WHT ($7,852) retained by CSS on her Gross fortnightly CSS pension which, without her CC, would have meant **a** NET TOTAL Personal tax liability of $9,699 rather than the $1,847 she thought was reasonable!

— After making a CC of $30,721 to her superannuation 2017, Samantha was entitled to $4,782 NET tax saving - or, as I like to think of it, 'money for nothing'. Comparative outcomes are tabled below:

Estimated tax position	**Without CC strategy**	**With CC strategy**
Gross CSS pension	$47,302	$47,302
Taxable ABP* income	$4,841	$4,841
Tax Free ABP income	$3,108	$3,108
Bank Interest	$3,074	$3,074
Gross Income	**$58,325**	**$58,325**
Less Tax Free ABP	$3,108	$3,108
Less CC to Super	NIL	$30,721
Taxable Income	**$55,217**	**$24,496**
Tax calculated	*$8,595	*$25
Plus Medicare levy	$1,104	$284
Tax due	**$ 9,699**	**$309**
Less PAYG WHT & ABP tax offset	$7,852	$7,852
Tax payable / refund	**Dr $1,847**	**Cr $7,543**

GROSS Personal Tax saved: *($7,543 refund + $1,847 further tax due without CC strategy)*	**$9,390**

NET tax saving: *Less super contributions tax on CC (i.e. 15% x $30,721 = $4,608*	**$4,782**

* Including LITO & ABP rebate

Conclusions:

By any count, a NET tax saving of $4,782 in 2017 was well worth Samantha's $30,721 CC to super strategy. Overall, she has managed to improve her superannuation position and not pay additional tax – and get a $4,500 - $5,000 annual benefit.

In this financial year, of course, she can only make a CC of $25,000 this financial year; nevertheless, an estimated $4,500 pa NET saving was – and will continue to be – well worth an annual $25,000 pa CC strategy from the 2018 financial year and beyond!

'Samantha certainly has picked up 'money for nothing' – but it is a pity the superannuation and tax system is so complex that ordinary mums and dads, without the advice of a financial strategist, cannot navigate their way through it,' Theo said.

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