



## MAKING THE MOST OF THE NEW SUPER RULES

New "Simplified Super" legislation has now been passed and will come into effect on 1 July 2007. Major changes (among many) that will make superannuation a very attractive structure for holding assets and reducing tax are:

- > No tax will be payable on superannuation benefits received after 1 July 2007 by persons over age 60, whether from lump sum withdrawals or pension income streams.
- > Reasonable Benefits Limits will be abolished on 1 July 2007 – there will be no penalties for having excess assets in super.
- > Eligible self-employed persons will be able to claim a full tax deduction for personal contributions made to their superannuation – this compares with the current 75% of contributions above \$5,000 pa.

By commencing a pension with superannuation assets, it will be possible to obtain tax-free income (after age 60) and eliminate all taxation on the earnings from the assets, **for the rest of your life!** Making contributions to your super may also help reduce this year's income tax liability.

Importantly, there are rules that must be followed regarding when you can access your super, when you can contribute to it and when you can claim a tax deduction for your contributions. There are also transitional rules applying until 30 June 2007 to prevent people from putting excessive amounts into the tax-advantaged super environment.

This newsletter is intended to:

- > Bring to your attention some superannuation strategies that might be of benefit to you, either by accessing your superannuation benefits, adding to them or using deductible contributions to reduce your tax burden.
- > Encourage you to discuss these strategies with your accountant – the details are more complicated than can be presented fully here.
- > Encourage you to seek further advice if appropriate.



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	Strategy (refer disclaimer below)	General Relevant Situation	Applicable Age			
			65+	60-64	55-59	50-54
<b>A</b>	Sacrifice salary to super and withdraw lump sums or pension from super tax-free	Employed person	✓	✓		
<b>B</b>	Start a pension from super	Working or retired	✓	✓	✓	
<b>C</b>	Pay no more than 15% tax*	Employed or self-employed or self-funded retiree with large investment income	✓	✓	✓	✓
<b>D</b>	Contribute up to \$1M into super*	Seeking to reduce tax on the income generated by investments	✓	✓	✓	✓
<b>E</b>	Sell pre-CGT property or shares and make contributions to super*	Seeking to reduce tax on the income generated by investments	✓	✓	✓	
<b>F</b>	Sell assets and minimise capital gains tax with a deductible super contribution*	Self-employed and self-funded retiree	✓	✓	✓	✓
<b>G</b>	Declare dividends from private company and make deductible super contributions to offset the tax*	Persons with private companies and little or no salary income	✓	✓	✓	✓
<b>H</b>	Minimise tax on super pensions received before reaching age 60	Anyone who started work before 1 July 1983			✓	✓
<b>I</b>	Start a Term Allocated Pension before 20 September 2007	Looking to receive more Age Pension benefits	✓	✓	✓	✓

\*If you are over age 65, you may need to satisfy a Work Test to apply these strategies

#### DISCLAIMER

Note that these strategies do not represent personal advice. Your specific personal circumstances have not been taken into consideration and you should seek further advice before acting on any strategies presented above. There are details that need to be confirmed before you can apply these strategies and be sure that you are working within the rules!

## A – Sacrifice salary to super and withdraw lump sums or pension from super tax-free

If you are over 65, you can withdraw any amounts you want from super, tax-free after 1 July 2007. If you are 60-64, you may have already met a condition of release to withdraw lump sums tax-free but, if not, you can certainly commence to draw a pension from super, tax-free. Ideally, you should take the first \$25,000 of employment income as salary and sacrifice the balance (up to the \$100,000 limit) into superannuation. Cash required for living can be withdrawn from super (within limits if under 65). The adoption of this strategy can limit your tax rate on all income to no more than 15%.

## B – Start a pension with your super benefits

Starting a pension from your super reduces the tax on earnings within the superfund from 15% to 0%. The pension receipts will be tax-free from 1 July 2007 if you are over 60. If you are under age 60, the income will still be more tax-effective than normal investment or employment income. As you will then have more tax-effective income (or tax-free if you are over 60), you may then be able to adopt one of the following strategies.

## C – Pay no more than 15% tax

With tax-free or tax-effective income from a superannuation pension, you may be able to:

- > Salary sacrifice normal salary income (as contributions into super) if you are an employee (perhaps down to a taxable income of \$25,000). Only 15% contributions tax will then apply to the sacrificed income, rather than your marginal personal tax rate had you not sacrificed the income.
- > Arrange for your Trust to make employer super contributions for you and your spouse if you are employees of the Trust and are engaged in producing assessable income for the Trust. In this way, only 15% super contributions tax will apply to the contributions made, rather than your marginal income tax rate that would apply if the Trust profits were distributed to you.
- > Arrange for your Private Company to make employer super contributions for you and your spouse if you are employees of the company and are engaged in producing assessable income for the company. In this way, only 15% super contributions tax will apply to the contributions made, rather than your marginal income tax rate that would apply for you if the company paid you a salary or, if the company retained the profits, the company tax rate of 30% of the profits.
- > If less than 10% of your assessable income is from employment, offset investment income with deductible personal super contributions. The super deductions may be able to reduce your personal tax rate on the investment income to the 15% bracket.

This is the last year that you can receive the maximum age based contribution both personally and from an employer.

## D – Contribute up to \$1M into super before 30 June 2007

If you have investments outside of super, up to \$1 million can be contributed to super as undeducted contributions before 30 June 2007, if you are either under 65 or you are over 65 and satisfy a Work Test. After 30 June 2007, you will be limited to \$150,000 of undeducted contributions per year, or \$450,000 over a 3-year period.

As an example, if the investment earns 6% interest, the tax on interest earnings on \$1 million outside of super is at least \$14,000 per annum. If the \$1 million is in a superannuation pension, the tax on the earnings is Nil. You need to consider, of course, the CGT (Capital Gains Tax), GST and stamp duty implications that might be incurred in transferring assets to super.

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## **E – Sell pre-CGT property or shares and make contributions to super**

There is generally no CGT payable on the sale of investments that you acquired before September 1985. You would generally, however, be paying income tax on the rent or dividends generated by those investments. If the investment asset is sold and the proceeds contributed into super that is used to pay a super pension, the superfund will pay no tax on the rent or dividends or future capital gains. The superfund can get back in cash the imputation credits attached to any dividends.

## **F – Sell assets and minimise CGT with a deductible super contribution**

If you are self-employed or less than 10% of your assessable income in the financial year is from employment, you can be eligible to make deductible personal super contributions. You also have to be either under 65 or between ages 65 - 70 and satisfy a Work Test. A deductible personal super contribution can be made to offset any assessable realised capital gains, allowing you to transfer assets to super without incurring a large tax bill. The strategy can also apply if your assets are in a Trust or Private Company.

## **G – Declare dividends from private company and make deductible super contributions to offset the tax**

If you are under 65 or aged between 65-70 and meet the Work Test, and, if your assessable income from employment is less than 10% of your total assessable income, you can make a personally deductible super contribution. This gives you an opportunity to declare dividends from your private company to yourself. The super contributions can offset the dividends received thereby reducing your personal tax liability. This can also result in personal tax refunds of imputation credits, 15% tax being paid on the super contributions and cash being tax-effectively extracted from your company.

## **H – Minimise tax on super pensions received before reaching age 60**

If you are 60 or over, your superannuation benefits will be tax-free to you. But even if you are under age 60, you can maximise the tax-free components of your super. If you started working before 1 July 1983, this can be done by making un-deducted contributions to your super and / or by consolidating multiple super accounts before 30 June 2007. This could save you hundreds or thousands of dollars of tax each year for up to 5 years. Of course you need to be sure that you don't lose any insurance benefits when consolidating super accounts, so seek advice first!

## **I – Start a Term Allocated Pension before 20 September 2007**

TAPs (Term Allocated Pensions) are more restrictive superannuation pensions that are not appropriate for everybody, but they may be fantastic for you if you wish to maximise Centrelink Age Pension benefits after age 65. New TAPs will no longer be available to be purchased after 20 September 2007.

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### **Advice**

This newsletter has been prepared for the information of clients of Edwards Marshall. It contains brief comments which are not intended to be a basis for decision making.