



>> PIS Timely Tips

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Did You Know?

The superannuation assets of Australians continue to rise. Latest figures released by the Australian Prudential Regulation Authority reveal that as at 31st March 2007 total superannuation assets exceeded \$1,053 billion. This represents an increase of \$154 billion over the previous 12 months.

Source: APRA

All articles appearing in Timely Tips are written by Professional Investment Services unless otherwise acknowledged.



A "Super" New Year

It goes without saying that the last financial year was once of the most significant in terms of superannuation reforms in many decades. Opportunities abounded allowing people to contribute up to \$1 million to superannuation.

The incentive to do so became even greater given that, for most people, once they reach age 60, they will not pay tax on their superannuation benefits, whether taken as an income stream (a pension), or as a lump sum.

Overcoming issues, we will focus on various aspects of the new superannuation rules as they impact on each one of us.

In this issue we will concentrate on explaining the rules that now apply to making contributions to a superannuation fund.

Before we start, it may be useful to explain some of the new terms that have crept into the "superannuation dictionary".

Concessional contributions – are contributions that are being claimed by the contributor (employer, self-employed person etc) as a tax deduction.

Excess concessional contribution – a tax deductible contribution that exceeds the maximum limit.

Non-concessional contributions – these were previously known as "undeducted" contributions. They are personal contributions that are not being claimed as a tax deduction.

Excess non-concessional contributions – a non-concessional contribution that exceeds the prescribed limit.

Firstly, let's look at who can make contributions to a superannuation fund:

Any person under 65 years of age may make a contribution to a superannuation fund. There is no requirement that they be working, or have ever worked. Once a person turns 65, they may contribute to a superannuation fund provided they meet a "work test". That is, they must be gainfully employed for a minimum period of 40 hours, worked over not more than 30 consecutive days, in the financial year in

which they contribute. Once a person turns 75, they are no longer able to make contributions, even if they continue to work.

New limits have been imposed on superannuation contributions.

Concessional contributions (see above) are limited to a maximum of \$50,000 in the 2007/08 financial year. That is, this is the maximum amount of tax deduction that may be claimed. For a person aged 50 and over, the concessional contribution in this financial year is \$100,000. Any concessional contribution over their respective limit will still be tax deductible however the contribution itself will be taxed at 46.5%, thereby providing a significant disincentive to make excessive contributions.

Non-concessional contributions are now limited to a maximum of \$150,000 per person per annum. Once again, for those aged between 65 and 74, the "work test" must be met. Under the new rules covering non-concessional contributions, a person under age 65 may effectively bring forward up to three years contributions, thus allowing a single non-concessional contribution of up to \$450,000 to be made. Where contributions are brought forward, no further non-concessional contributions can be made for the next two years. The \$450,000 "pre-payment" opportunity is not available to people aged 65 or older.

If a non-concessional contribution exceeds the relevant "cap", i.e. \$150,000 or \$450,000, the excess amount will be taxed at 46.5% and will be counted against the person's concessional contribution cap.

We have mentioned the opportunity to claim a tax deduction for superannuation contributions.



getting you from **a** to **b**

In general terms, an employer is able to claim a tax deduction for contributions made on behalf of eligible employees. In addition, a self-employed person may also claim a tax deduction for their personal contributions, as is the case for a person who is "substantially self-employed". A substantially self-employed person is one who derived less than 10% of their total tax assessable income (plus reportable fringe benefits) from employment. A person may also be able to claim a tax deduction for personal superannuation contributions where that person receives no employer superannuation support. This may include people who are no longer working (but remember, if aged between 65 and 74, they still need to meet the "work test" in order to be able to contribute).

One of the significant changes to take effect from 1st July 2007 is the extension of tax deductibility to age 74. Previously, tax deductions could only be claimed up to age 70. So for employees, and self-employed people working beyond age 70 (and up to 74), tax deductibility for superannuation contributions has been extended.

Making contributions to superannuation can generate significant tax effective savings for many people. Even though superannuation has been simplified, there are still many rules and regulations that need to be complied with. As always, the prudent investor will seek appropriate advice from a licensed financial planner before making contributions.

Source: Peter Kelly – Professional Investment Services

Extension of tax deductibility for income protection insurance premiums

Income protection insurance (sometimes also referred to as salary continuance insurance) is designed to cover a person's income in the event that they are unable to work as the result of a temporary or permanent disability. In essence, it is designed to replace wages or salary during a period of incapacity. Income protection insurance policies are structured to provide benefits for up to a defined period of time of age. A two year benefit period will pay a benefit for a period of up to two years of disablement whereas a benefit period to "age 65" will pay a benefit for disablement through to age 65. Often people arrange their income

protection insurance through their superannuation fund however, in the past, the superannuation fund has only been able to claim a tax deduction for that portion of the premium that relates to a two year benefit period. So, where a person has income protection insurance providing a benefit to (say) age 60 or 65, the super fund has only been able to claim a tax deduction for a portion of the premium. The premium payable for a two year benefit period will generally be less than that payable if the cover were to be provided for a longer benefit period. As a result of the limit of tax deductibility, people generally limited the benefit period on income protection insurance arranged through insurance to a two year benefit period.



However, all this has changed. On 28th March 2007 the Australian Taxation Office (ATO) issued Taxation Determination 2007/3. In this Determination, the ATO announced that premiums for income protection insurance arranged through superannuation would be tax deductible irrespective of the benefit period attaching to the insurance cover. In simple terms, the premiums payable for benefit periods that exceed two years would be deductible to a superannuation fund.

The view of the ATO does not simply cover the tax deductibility of future premiums. Where tax deductibility of income protection insurance premiums for a benefit period of more than two years has previously been limited, there may be an opportunity to claim a larger deduction. If readers are affected, they are encouraged to review their taxation position with their accountant or taxation adviser.

Moving forward, the extension of tax deductibility of premiums for benefit periods of more than two years presents a great opportunity for readers to review their income protection insurance and where appropriate, rearrange the cover they currently hold both inside and outside superannuation. This is an issue that should be discussed with your financial adviser or risk insurance adviser.

Source: Peter Kelly – Professional Investment Services

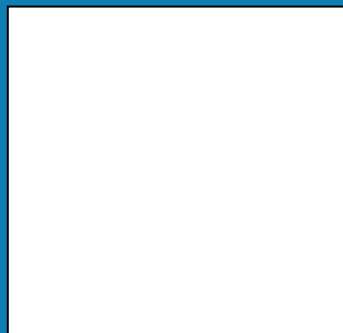
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