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Did You Know?

As at 1 October 2006, Australia's population was estimated to be 20,672,637 people.

This is based on one birth every 2 minutes, one death every 4 minutes, and the net gain of one international immigrant every 4 minutes and 47 seconds.

Source: Australian Bureau of Statistics (www.abs.gov.au)



Simpler Super – Really?

On 5th September 2006 the Government released the final changes to the superannuation reforms previously announced in May 2006. The final changes have come about following the three month consultation period during which over 1500 formal submissions were made.

In this edition of Timely Tips we will be reviewing the final outcome of some of the main elements of the Simpler Super reforms and leave you to be the judge if super will really be simpler!

Unless otherwise mentioned, the changes all apply from 1st July 2007, however they are still subject to legislation being introduced and passed.



Benefits paid to people aged 60 and over

Benefits paid as either a lump sum or as an income stream (pension) will be **tax-free** when paid from a "taxed" superannuation source to someone aged 60 or over. A taxed superannuation source is superannuation fund that has paid tax on contributions and on investment earnings accruing within the fund. By contrast, an "untaxed" superannuation source is a fund that has not paid tax. Such funds are typically some of the public sector or Government super funds. If you are a member of a public sector scheme, your fund can tell you if it is a taxed or untaxed scheme.

Where a pension commenced prior to 1st July 2007, it will become tax-free from that date provided it is paid from a taxed source and the income recipient is aged 60 or older.

Benefits paid from an untaxed source will continue to be taxable, whether taken as a lump sum or as a pension but people aged 60 and over will qualify for a 10% tax offset (rebate) from 1st July 2007. This will make the income stream more tax effective than currently applies.

Benefits paid to people under 60 years of age.

Benefits paid to someone under 60 years of age, whether as a lump sum or as a pension, will continue to be taxed on much the same basis as currently applies. For lump sum benefits, the complex array of "eligible termination payment components" that currently make up lump sum payments will be streamlined. Future lump sum payments will now only comprise of up to two components; a "tax exempt" component and a "taxable" component.

Reasonable Benefit Limits (RBL's)

RBLs are the maximum amount that can be taken from the superannuation system on a concessional tax basis. The RBLs are currently \$678,149 for "lump sums" and \$1,356,291 where at least 50% of a benefit is applied to a pension which meets certain minimum standards.

RBLs are to be abolished from 1st July 2007.

Any benefit taken prior to 1st July 2007, either as a lump sum or as an income stream, will continue to be assessed for RBL purposes. Individuals should avoid taking benefits in excess of their RBL prior to the end of the current financial year without seeking prior advice from your financial planner.

Death Benefits

A benefit paid following the death of a super fund member is tax-free up to the deceased members pension RBL, where it is paid to a "dependant" (as defined in the Tax Act). A dependant includes a spouse, child under 18 years of age, others who have an "interdependency" relationship or a financial dependency on the deceased. Benefits in excess of the pension RBL are currently taxed, even when paid to a dependant.

With the abolition of RBLs, any benefit, irrespective of the amount, paid to a dependant will be tax-free.

A benefit paid to a non-dependant will continue to be tax-free to the extent that it comprises of a "tax exempt" component, whilst the "taxable component" will be taxed at a rate of 15%. There is no change to the way in which benefits are taxed when paid to non-dependants.

Benefits arising as the result of the death of a member in the "accumulation phase" of super (that is, a member who has not yet commenced to receive a pension) may be

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paid to as an income stream (pension) to a child, rather than as a lump sum. However, once the child turns 25, the pension will have to be paid out as a lump sum (tax free), except where the child is suffering a disability. Where a pension has already commenced to be paid prior to the death of the member, it may continue to be paid as a pension where a reversionary beneficiary has been nominated. Taxation of the income stream paid to a reversionary will depend on whether or not the deceased was under or over 60 years of age.

Compulsory Cashing of Superannuation Benefits

The requirement that a person be forced to take their superannuation benefit, either as a pension or as a lump sum, once they turn age 65 and no longer working, has been abolished effective from 10th May 2006.

Individuals may now remain in the accumulation phase of superannuation for as long as they wish.

However, whilst in the accumulation phase of super, the investment earnings of the super fund are taxed at a rate of 15% (10% for capital gains). Investment earnings of funds that are being used to pay a pension are taxed inside the super fund at 0%.

Simplified Pensions

Pensions that commence to be paid prior to 1st July 2007 will continue to be administered as they currently are. The only difference being that if paid to a person aged 60 or older, from a taxed source, they will become tax-free.

A new simplified type of pension structure will be introduced from 1st July 2007.



Contributions

Contributions to super may be of two types; the "taxable" contribution (one for which a tax deduction is claimed), and the undeducted contribution.

Taxable Contributions

Taxable contributions can be made by employers, the self-employed and substantially self-employed, and "unsupported" persons. An unsupported person is one who receives no superannuation support from an employer.

The tax deduction currently available for super contributions is based on a scale of "age based limits". Age based limits are to be abolished and will be replaced with a flat limit of \$50,000 per person per financial. During the period 1st July 2007 and 30th

June 2012, a person aged 50 or over will have a limit of \$100,000. Contributions within these limits will be taxed at the current contribution tax rate of 15%, inside the super fund, however any contributions that exceed this limit will be taxed at the top marginal tax rate of 46.5%.

Where a tax deduction may be claimed, the full amount of the contribution will be deductible to the person or entity making the contribution. A deduction may be claimed on contributions through to age 75 (instead of the current age limit of 70).

Undeducted Contributions

Undeducted contributions are personal contributions for which a tax deduction is not being claimed. Prior to 10th May 2006 (Budget night) there was no limit on the amount of undeducted contributions a person could make. Limits have now been imposed on undeducted contributions.

During the period between 10th May 2006 and 30th June 2007, a person may make undeducted contributions of up to \$1,000,000.

From 1st July 2007 an annual limit of \$150,000 per person, per financial year will apply. An individual under the age of 65 will be able to take advantage of a "Three year averaging" arrangement which will allow them to bring forward three years contributions. They will effectively be able to make a contribution of \$450,000 in one year, but nothing in the next two years. Once a person reaches age 65, where they are eligible to continue to contribute to super, they will be restricted to the \$150,000 limit and will not have access to "averaging". Significant tax penalties will apply to people making undeducted contributions in excess of these limits.

Some exemptions apply to the undeducted contribution "cap", particularly for small business owners who have access to the capital gains tax relief that applies on the sale of "active business assets".

Other changes

A number of other changes have been announced including the treatment of employer payments made on termination of employment, consolidating multiple superannuation accounts, the consequences of not quoting a tax file number to a super fund, changes to the regulatory fee paid by self managed super funds, and simplification of annual reporting for self managed superannuation funds.

The changes will, in time, lead to a simplification of super however, in the meantime, and until legislation has been passed, individuals should exercise caution before implementing strategies. More than ever, advice from a financial planner is vitally important.

Source: Peter Kelly – Professional Investment Services

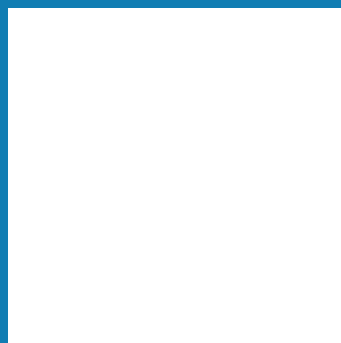
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List of services:

- Wealth Accumulation
- Superannuation/Rollovers
- Retirement Planning
- Mortgage Elimination
- Shares and Property
- Fixed Interest and Cash
- Tax Planning
- Finance Services
- Home Mortgages
- Business Planning
- Risk Insurance
- Corporate Superannuation
- Corporate Services

Your local advisers office is located at:



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