



January 2007

IN THIS ISSUE

- A Message from the Editor
- Superannuation Reforms – An Update
- Did You Know?
- Centrelink Change
- Frequently Asked Questions

Did You Know?

Australian shares rose 0.2 % on Friday (29th December 2006) to end the trading year with another record closing high. The benchmark index added 19% in 2006, rising for its fourth straight year.

Source: www.ninemsn.com.au

The editors of Timely Tips welcome feedback from readers. If you have any topics you would like to see addressed in future issues, or for that matter any other suggestions or comments, please forward your suggestions to:

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



A Message from the Editor

As we stand at the dawn of a new year, many of us do two things – we look back at the past year and reflect on all the things that have happened and we look forward to the year ahead, perhaps with mixed feelings of excitement, anticipation and maybe a tinge of fear or apprehension.

On this note, we would like to take this opportunity of wishing all our readers a very healthy, safe and prosperous 2007 and hope that all dreams, ambitions and resolutions are fulfilled.

2007 promises to be a significant year from a financial perspective. Not only are we anxious to see what the financial markets deliver – with a number of very positive years of stock-market performance, the question on many peoples' lips is "how long will it continue?" – but 2007 also promises to be a big year on the superannuation and retirement planning front.

In May last year, the Federal Government announced a range of measures designed to simplify the superannuation system. In this issue of Timely Tips we will recap on some of these important changes.

2007 will also see the introduction of some changes to Centrelink and, in particular, changes to the assets test. The Centrelink changes that took effect from January 2007 are covered in this edition while future editions will cover other changes in more detail.

Superannuation Reforms – An Update

When the Government brought down its Budget on 9th May 2006, some of the most significant changes to be made to superannuation in over 20 years were announced.

One of the surprise announcements was a series of changes to the way in which contributions to a superannuation fund would be handled. These included:

- The introduction, from 10th May 2006, of a maximum limit on undeducted contributions (UDCs). Those made between 10th May 2006 and 30th June 2007, are limited to \$1m per person. After 30th June 2007, the limit will be \$150,000 per person, per financial year. Those aged under 65 will be able to bring forward up to 3 years contributions and make a single contribution of up to \$450,000, with no contributions being able to be made in the next 2 financial years.
- Abolition, from 1st July 2007, of a limit on the amount of tax deduction that may be claimed for superannuation contributions. This is to be replaced with a limit on the amount of contributions received by a superannuation fund to which the concessional 15% tax rate will apply. Tax deductible contributions that exceed \$50,000 per person, per year, will effectively be taxed at the top marginal tax rate of 45%, plus Medicare Levy. For those aged 50 or over, the maximum concessional tax contribution will be \$100,000 per person, per annum. This will apply for a 5 year period until 30th June 2012.
- Currently, where a tax deduction may be claimed for contributions, it is limited to contributions made by or for people under 70 years of age. This will increase to age 75 for contributions made on or after 1st July 2007.



The real winner to emerge from the Budget announcements is that superannuation benefits paid to people from age 60 will be tax-free where the benefit is paid from a taxed superannuation fund.

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

A taxed superannuation fund is one that pays tax on contributions and on investment earnings.

So, whether benefits are taken in the form of a lump sum payment or as a pension or regular income stream, the payments will be tax-free. Great news for those approaching retirement!

While the Budget announcements were primarily directed at contributions and benefit payments, a number of other aspects of superannuation are also to change:

- Eligible termination payments (lump sum payments from a superannuation fund) will be simplified from 1st July 2007;
- Reasonable benefit limits are to be abolished;
- The self-employed will be able to claim a deduction of 100% of contributions made to super (instead of the current complex system that allows a deduction of 100% of the first \$5,000, and 75% of the excess over \$5,000);
- A new and simplified form of pension will be introduced from 1st July 2007.

The important thing to remember with the superannuation reforms is: people will be affected differently depending on their personal circumstances. With this in mind, it is important for readers to ensure they discuss the impact of these changes on their personal circumstances with their financial adviser before acting.

Legislation introducing the proposed reforms has been introduced to Parliament and is expected to be debated in the Autumn sitting. As the Opposition has announced it will support the reforms, we don't expect any delays in having legislation in place by 30th June 2007.

Centrelink Changes

Effective from 1st January 2007, people whose principal residence occupies more than 2 hectares will have the entire property excluded from the assets test provided a number of conditions are met. This change will enable some people, who previously have either received no Centrelink benefit or a reduced benefit because of the value of their property, to now access an increased Centrelink entitlement. The conditions to be met to allow access to this assets test concession include:

- The property must be on a single title;
- You must be of age pension age;
- The land in question must have been owned for at least 20 years;
- You must be making effective use of productive land to generate an income, given your capacity.

Centrelink will be contacting all clients who receive a reduced pension because of the value of their property. Those who have not been eligible to receive a pension because of the value of their property may make application to Centrelink from 1st January 2007 to see if they are entitled to the concessions.



Frequently Asked Questions

We are often asked what age restrictions apply to people wishing to make contributions to super.

Generally, a person under the age of 65 may contribute to super without the need to meet any form of "work test". However, if aged 65 or over, restrictions apply.

A person aged between 65 and 69 may only make personal contributions or receive employer contributions if they meet a work test. The work test requires a person to be gainfully employed for at least 40 hours in not more than 30 consecutive days in the financial year in which the contribution is being made.

Between age 70 and 74 the same work test needs to be met, however, only personal undeducted contributions may be made. The only employer contribution that can be made for people aged 70 and over are mandated employer contributions. These are contributions required to be made under the terms of an industrial award or agreement.

Of course, from 1st July 2007, an employer will be able to make contributions up to and including age 74, however, the work test from age 65 will still apply.

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