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## Did You Know?

If inflation runs at 3% per annum, costs will double every 24 years. With people living much longer than previous generations, the ability to grow our retirement nest-egg during our retirement years is an important ingredient to allow us to maintain our preferred lifestyle.

*Source: Peter Kelly – Professional Investment Services*

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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## Transferring Overseas Superannuation to Australia

With the current superannuation reforms underway in Australia, we have received a number of inquiries from readers seeking more information on the issues they should be taking into account when deciding whether or not to transfer superannuation or pension fund interests that they hold overseas. This can be a complex area and is one where professional advice is vitally important.

An overseas superannuation or pension interest generally arises where a person has worked overseas prior to making Australia their home, or prior to returning to Australia after a period of working away. These days, the Australian workforce has become very “portable” with many people spending at least a portion of their working life overseas.

One of the first things to be considered before looking at transferring an overseas benefit to Australia is whether the current fund is able or willing to transfer the benefit. The outcome of this will be very much dependent on the legislation and the contractual obligations attaching to the fund. In cases where the conditions that give rise to the payment of an overseas superannuation or pension benefit have been met, such as having retired or reaching a prescribed age, an overseas pension benefit can be taken in the form of a lump sum or as an income stream, depending on the rules of the specific fund.

In some cases a benefit may be paid in the form of a series of regular income (pension) payments. Where the pension pays a prescribed level of income (a “defined benefit” pension) it is important to establish the “commutation value” of that pension if looking to transfer it to an Australian fund. In some cases, it may not be possible to generate the same level of income the overseas pension provides, simply because of the basis on which the overseas pension is paid. In other words, you may not be able to generate the same income if you were to commute your overseas pension and

transfer it to an Australian fund which, in turn, pays a pension income.

Once it has been established that you can transfer your overseas superannuation entitlement to Australia, you will need to determine if the benefit can be transferred to an Australian superannuation fund, or if the benefit will simply be paid to you as a non-superannuation payment.

If under 65 years of age, there is generally no restriction on transferring an overseas pension benefit to an Australian superannuation fund as anyone under age 65 is able to make contributions to superannuation. If aged between 65 and 74, in order to transfer an overseas benefit into an Australian superannuation fund, you will need to meet a “work test” in the financial year in which the transfer is to occur. This involves being employed or self-employed for gain or reward for at least 40 hours over not more than 30 consecutive days in the financial year in which the transfer is to be made. Once a person reaches age 75, they are generally not able to make contributions to a superannuation fund and are therefore unable to have amounts transferred from overseas pension funds.

Once it has been established that a benefit can be transferred from an overseas pension fund and it can be received by an Australian superannuation fund, it is important to consider the taxation consequences of the transfer.



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

There may be tax imposed by the country from which the benefit is being transferred. This will be dependent on the domestic taxation laws of the country that currently holds the superannuation. Unfortunately there is no consistency in this regard and specific inquiries need to be made of the country concerned.

For example, on 6<sup>th</sup> April 2006, the UK authorities amended the taxation of pension benefits being transferred from a UK pension fund to overseas pension schemes. Tax of up to 55% of the amount transferred can apply. However, where the benefit is being transferred to a "Qualifying Recognised Overseas Pension Scheme", the UK tax can be avoided. To meet the QROPS requirements, the overseas fund must be registered with the UK regulator. A number of Australian public superannuation funds have registered as QROPS funds.

Where an overseas pension entitlement is being transferred to an Australian superannuation fund, Australian tax may apply. The actual amount of tax payable depends on how long the person transferring the benefit has been an Australian resident.

Where a person has been an Australian resident (for tax purposes) for less than 6 months at the time the benefit is transferred, the benefit is treated as an "undeducted contribution" and is tax free in the hands of the member and the Australian superannuation fund. However, where a benefit is transferred on behalf of a person who has been an Australian resident for more than 6 months, the increase in the value of the overseas benefit that has occurred from the time the person became an Australian resident and the date of transfer, is treated as tax assessable income in the hands of the tax payer. This will be taxed at the tax payer's marginal tax rate in the year in which the transfer occurs. Where an Australian tax liability does arise, the person for whom the transfer is being made may make an election to have the taxable portion of their transferred benefit treated as a taxable contribution inside the receiving Australian superannuation fund.

Where this option is selected, the rate of tax payable is 15%, rather than the member's personal tax rate.

Where a transfer includes a taxable component, the value of the overseas fund at the time the member became an

Australian resident is treated as an undeducted contribution.

One of the reforms announced in the 2006 Federal Budget was the imposition of a cap or limit on the amount of undeducted contributions that can be made without tax applying. The limit is \$1,000,000 per person where contributions are made between 10<sup>th</sup> May 2006 and 30<sup>th</sup> June 2007. From 1<sup>st</sup> July 2007, this cap will reduce to \$150,000 per person per financial year. People under 65 years of age will be able to bring forward up to 3 years contributions and make a single undeducted contribution of \$450,000.

As transfers from overseas pension funds are affected by these limits, there is some urgency for people wishing to transfer large overseas pension fund entitlements to an Australian fund. The transfer will need to be completed by 30<sup>th</sup> June 2007 in order to escape potentially significant Australian tax impost. Transfers from overseas funds can take some time to finalise so those readers with significant entitlements in overseas funds are encouraged to speak to their financial planner and get the transfer process underway.

*Source: Peter Kelly – Professional Investment Services*



## Superannuation Legislative Update

The legislation surrounding the superannuation reforms announced in last year's Federal Budget was tabled in Parliament on 7<sup>th</sup> December 2006 and was passed by the Senate on 27<sup>th</sup> February 2007. The key changes to apply from 1<sup>st</sup> July 2007, including the payment of superannuation benefits for people aged 60 and over to be tax free, abolition of reasonable benefit limits, the abolition of age based limits for tax deductible contributions and the limiting of undeducted contributions (applying from 10<sup>th</sup> May 2006), all now have the force of law.

Some regulations regarding specific measures still need to be finalised.

*Source: Peter Kelly – Professional Investment Services*

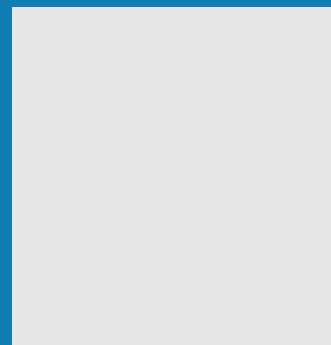
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