



## YOUR GUARDIAN

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### Pre 30 June 2007 Strategies

The Government's recent overhaul to the superannuation system and changes to superannuation from 1 July 2007 have resulted in some significant opportunities that are available between now and 30 June.

#### Contribute \$1m to superannuation

After the initial announcement on 2006 budget night introducing an annual undeducted contribution limit of \$150,000 per annum, Treasury were prompted to review this and announce a transitional period which allows \$1million in undeducted contributions between 10 May 2006 and 30 June 2007.

Previously to this, there were no limitations on the amount of undeducted contributions which could be contributed to super. Therefore, **this is possibly the last ever opportunity to contribute such a large amount.**

What is the benefit of contributing such amounts to super? Firstly, the fund will generally pay a maximum of 15% income tax and 10% capital gains tax when the super fund is still in accumulation phase. Once the fund begins paying a pension (pension phase), the super fund will no longer pay tax on income or capital gains. Furthermore, if you are over 60, from 1/7/07 pensions and payments received from the fund will also be tax free!

**The prospect of never again paying income tax after age 60 should be motivation enough for most people to consider transferring assets into superannuation.**

#### Do not have \$1m in cash?

If you do not have \$1m in available cash, other assets may be able to be transferred into a self managed superannuation fund as a contribution. These assets must be either listed securities or commercial property, although there are a few other less common exceptions to this rule. Other assets such as unlisted investments and residential property generally cannot be transferred.

If you are due to receive an asset, but not until after 30 June 2007, then it may be possible to organise a short term loan to fund a contribution before 30 June 2007. When you receive the asset as expected then you can retire the loan.

Otherwise, if you have sufficient equity in your family home or elsewhere, then you may be able to borrow the \$1m to contribute into super.

**Act with caution.** If you borrow money to make an undeducted contribution to superannuation, then the interest

incurred on this loan would not be tax deductible. Furthermore, you would need to make the repayments required on the loan (this would be made easier if you are over 55 and therefore in a position to commence a pension from the super fund).

There cannot be a charge over the assets of a super fund – therefore, you cannot use the assets of the super fund as equity to borrow money, or transfer an asset into a super fund that has an undischarged encumbrance.

The transfer of assets (other than cash) to a super fund will be a Capital Gains Tax (CGT) event. The super fund will be deemed to have acquired the asset from you at its market value therefore there may be CGT payable by you on this transfer. Keep in mind that in certain circumstances you may be able to claim a tax deduction on part of the super contribution which will assist to offset any CGT.

#### Double dipping

Currently there are limits for the level of deduction an employer can claim on contributions to a super fund for each employee. These levels depend on the age of the employee, as detailed on the table below (this is for the 2006/07 financial year):

Age of Member	Maximum deductible contribution
Under 35	\$15,260
35 – 49	\$42,385
50 and over	\$105,113

These limits are per unrelated employer. These limits also represent the maximum amount that a self employed or unsupported person can claim a deduction on for super contributions.

Under new rules, from 1 July 2007 onwards, there is a limit of \$50,000 which may be contributed as a deductible super **per person**, rather than per employer. There are transitional rules until 2012 which allow those over 50 to receive \$100,000 in deductible contributions.

This presents an opportunity until 30 June 2007 for employees with multiple employers to access an aged based limit for every unrelated employer. This could be achieved through salary sacrificing into super. If salary income is reduced it may even be possible to access the age based limit

again through personal deductible super contributions – it would be wise to have sufficient other income to warrant this deduction though.

## Stop the pension

Under the new rules, there is no longer a compulsory requirement to commence a pension once you have passed the age of 65 and retired. This rule takes immediate effect.

Therefore, this could suit those who were previously forced to commence a pension and since have been drawing large amounts as a minimum allocated pension. By drawing these large pension amounts, the fund will diminish at a rapid rate and this may also result in hefty rates of personal income tax on the pension up until 30 June 2007.

The downside of stopping the pension and hence reverting to accumulation phase is that the fund itself will again be subject to tax of 15% on income and 10% on capital gains. In pension phase, the fund's tax rate is 0% for income and capital gains.

However, the pension could be recommenced under the new rules from 1 July 2007 which would permit a lower minimum drawdown, and the pension will be absolutely tax free. The fund again would also be subject to the 0% tax rate.

There are also the administrative costs of stopping and starting the pensions to consider.

## Maximising the pre 83 component

On 1 July 2007, all super balances will be converted from the complicated array of current ETP components to a simplified system which comprises two components – 'taxable' and 'exempt'.

The exempt component will be comprised of all the components which already enjoy concessional tax treatment – the most common being undeducted contributions and the pre-1983 component. The taxable component will comprise the post-1983 taxed component.

On 1 July 2007, the pre 1983 component will be 'crystallised' and form the exempt component, meaning from this date it will no longer apply as a proportion across all super balances as is currently the case. Therefore, consideration should be put towards ensuring that the pre 1983 component is maximised and the post 1983 component is minimised prior to 30 June 2007. Some methods to do this follow:

Consolidate super balances which have earlier 'eligible service period' start dates (ESP) which are before 30 June 1983, into super balances which have a later ESP. This will apply a pre-1983 service period across the whole of the super balance.

Implement a lump sum withdrawal to make the most of the post June 1983 tax free amount (currently \$135,590), with the corresponding pre-1983 component. The use of undeducted contributions on this withdrawal can also assist to maximise the pre 1983 component.

The proceeds may then be re-contributed back into the super fund as an undeducted contribution (which forms part of the exempt component).

This is a complex strategy – other factors also need to be taken into account, including whether the member is eligible to make the withdrawal or eligible to contribute, whether the \$1m undeducted contribution threshold has been already utilised and whether the post June 1983 tax free amount has already been utilised.

## Start a pre-retirement pension

As previously discussed, from 1 July 2007, the old ETP components are being crystallised into the exempt and taxable components. The new style components will need to be drawn proportionately if a lump sum or pension is taken. This may seem largely irrelevant for the over 60's who will not pay tax anyway, however, those between 55 and 60 still need to consider tax on withdrawal.

Under current rules, a pension or lump sum may be taken and the recipient can generally elect which of their components are to be used on the initial pension balance or lump sum.

Therefore, anyone who is currently between the ages of 55 and 60 should consider the commencement of a pre-retirement pension before 30 June 2007, but only allocate undeducted contributions to the pension account balance. The post June 1983 component as at pension commencement date will effectively remain in accumulation phase and not be drawn down.

This will result in the pension payments being drawn from a large pool of undeducted contributions which are returned tax free to the pension recipient. Therefore the recipient will be subject to low or even nil tax. Once the age of 60 is reached, the accumulation balance can then move into tax free pension phase.

Otherwise, if the pension is commenced on or after 1 July 2007, the pension will need to be split proportionately between the taxable and exempt components.

**This newsletter very briefly outlines the strategies currently being considered by Financial Advisers – and we strongly recommend Trustees speak to their Adviser to assess if the 30 June deadline and current window of opportunity applies to you.**

For more information relating to these strategies, please call **Phil Jaquillard** or **Ed Bernard** of our office on 1300 787 576.



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