



**YOUR GUARDIAN** Issue: July 2009

## Things to consider in the new financial year

### Super Sacrificed

One of the most common ways for employees to take advantage of the low tax rates that apply to superannuation is to 'sacrifice' a portion of their salary as a concessional contribution. This 'sacrificed' amount is paid by the employer in addition to the 9% minimum superannuation guarantee contribution (SGC).

Until 30 June 2009, the sacrificed amount has not been required on the employee's annual PAYG Payment Summary (group certificate).

From 1 July 2009, employers need to include these super amounts on PAYG summaries. For people who salary sacrifice part of their salary into super, this could have a significant impact on the benefits and flexibility they previously received.

### Government benefits

For means tested Government benefits, the new rules will likely impact benefits such as: income support payments, family assistance payments, Government superannuation co-contributions, child support payments and the Commonwealth Seniors card. These benefits may no longer be available or may be reduced with salary sacrificed super contributions being included on annual PAYG summaries.

### The 10% Rule

Clients whose income is predominantly from business sources rather than salary and wages would be aware that personal contributions to super cannot be claimed as a tax deduction if more than 10% of total assessable income is from salary and wages.

Under the new rules, because salary sacrificed super payments will be included in the calculation of salary for the purposes of these rules, it will be easier to exceed the 10% threshold, meaning that personal super contributions may no longer be tax deductible! This can have a significant impact on a client's overall tax position.

As the changes commenced 1 July 2009, now is the time to understand the impact and make any necessary changes for this financial year.

### Contributions

As mentioned in last month's newsletter, the concessional superannuation contributions cap halved from 1 July 2009, with a reduction in the contribution caps as per the table below:

Age of Member	Current Year Amounts	09/10 was going to be	09/10 New Limits
<b>Concessional Contributions</b>			
Under 50 years	\$50,000 pa	\$55,000 pa	\$25,000 pa indexed
Over 50 – 74 years	\$100,000 pa	\$100,000 pa	\$50,000* pa
<b>Non concessional contributions</b>			
All ages	\$150,000 pa	\$165,000 pa	\$150,000 pa
Bring Forward Rule**	\$450,000 pa	\$495,000 pa	\$450,000 pa

\* For the 2009/10, 2010/11 and 2011/12 financials years

\*\* Until you reach age 65 you are able to bring forward 3 years

This will have the biggest impact on members over 50. If we look back to the 2007 financial year, the deductible contribution limit (now referred to as the concessional contributions cap) was \$105,113 for those over 50.

Further, this limit used to apply to super contributions from each unrelated employer, meaning that if a person had multiple employers, then they could access the super contribution limit multiple times.

From 30 June 2008, the limit for those over 50 was reduced to \$100,000 and includes all super contributions across all employers. From 1 July 2009, this \$100,000 limit for those over 50 reduces to \$50,000 per annum.

After 30 June 2012, the limit for those over 50 will revert to the normal concessional contribution limit for those under 50, being \$25,000.

Therefore, it is vital that consideration is given to concessional super contributions.

## Combining pension and accumulation accounts

If you are running a strategy of receiving a pension from your super fund, yet continuing to contribute to super, then you will have at least two member accounts within your SMSF, being a pension account and an accumulation account. Legislation refers to these as separate superannuation interests.

Superannuation rules do not allow you to contribute directly to a pension. The accumulation account will receive contributions whereas the pension account will reduce with pension payments, meaning that in theory, the accumulation account will grow relative to the pension account.

A benefit that the pension account has over the accumulation account is that the proportion of investment earnings and capital gains on the assets supporting the pension account are tax free.

Therefore, there may be an incentive to have more in the pension account and less in accumulation. This can be achieved by stopping the pension, combining the two accounts and then restarting the pension with 100% of the balance.

If you then continue to contribute, a new accumulation account will start to grow and you may need to stop, consolidate and restart the pension again in due course.

Prior to commuting any pension it is important for you to speak with your financial adviser and understand the tax components of your superannuation interests and the impact they have on you and your death beneficiaries.

Rather than stopping and restarting the one pension, you may be able to start new pensions with your accumulation balances from time to time (meaning you have more than one pension within the SMSF), but this can become complex and costly.

Factors to consider when deciding whether to stop and restart a pension to include accumulation balances are:

- The cost of doing so compared to the tax savings;
- The impact on the taxable and tax free components;
- The expected timeframe of future super contribution;
- The impact of a member's entitlement passing to a death beneficiary.

Funds running an accumulation and pension account during the financial year require an annual actuarial certificate, which is a document provided by an 'Actuary' to obtain a tax exemption on the pension assets.

This costs approximately \$230 per annum. This fee can be potentially avoided by consolidating the accumulation and pension account on the 1<sup>st</sup> of July and making no further contributions to the fund during a financial year (assuming there

are no accumulation accounts and the fund is in pension mode for the full year).

This cost can also be avoided by running segregated accounts within the SMSF which may increase the administration costs associated with the fund.

As many consolidations occur as at 1 July each financial year, if you wish to discuss your specific circumstances please call your Client Manager as soon as possible to discuss.

## Commencing a pension

If you have recently met a condition of release you may wish to consider commencing a pension.

Conditions of release include:

- Transition to retirement (age 55-64);
- Termination of employment (age 60-64);
- Permanent retirement (age 55-64);
- Attaining age 65.

It is important to consider any contributions made prior to the pension commencement. If you wish to include any of the contributions received by the fund as member concessional contributions we must ensure that a declaration is made prior to the pension commencement. Please contact your Client Manager to discuss this if you intend to commence a pension.

## Current pension members

If your fund is currently running a pension and you are on our monthly reporting service, we will write to you within the next month to detail your 2009/2010 pension minimum drawing requirements.

Age of Member	Minimum amount 09/10
Under 65	2%
65 – 74	2.5%
75 – 79	3%
80 – 84	3.5%
85 – 89	4.5%
90 – 94	5.5%
95+	7%

## Summary

To discuss any aspect of this newsletter in further detail, please call **Monte Engler** or **Brendan Daw** of our office on **8221 6540** or **1300 787 576**.