SuperGuardian™

Superannuation administration made simple!

YOUR GUARDIAN

Issue: June 2005

Shall I Set Up My Fund before June 30?

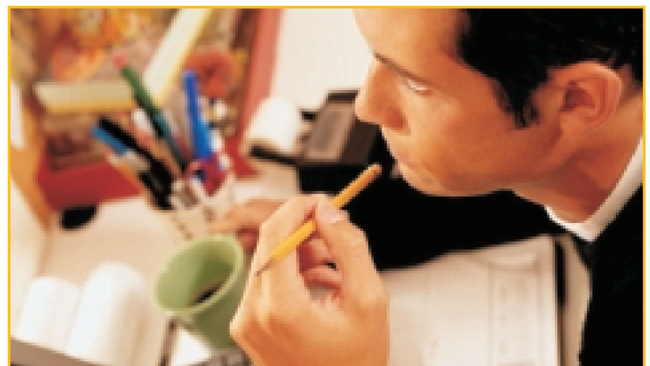
We are often asked, from an accounting and tax perspective, whether it is beneficial to set up a fund before June 30, or wait until July.

The answer will of course depend very much on an individual's particular circumstances, and there are several factors which must be taken into account.

When a fund is established before June 30, then, even though it may have only been operating for 2 weeks, a set of accounts must still be prepared for the financial year. The accounts, which must also be audited, will cost around $1,430, which includes the statutory reports, preparation of a tax return, members statements, investment schedules and audit.

The cost is not avoidable - there is still much to be done despite the fact that the fund was only in operation for 2 weeks.

And, given the fact that the super surcharge will no longer apply from July 1 2005, is that yet another reason to delay the establishment until July?



Case Study

Before June 30

Mr Davies, who is aged 52, has made a decision to establish a SMSF. He has $150,000 to rollover into a fund from an existing public offer fund. Mr Davies also has $90,000 before tax in profits in his business (as a sole trader) and $28,333 in previous years after tax profit available to contribute to superannuation. He is on the top marginal tax rate due to other business and investment income. Mr Davies' total income for the 2004/5 financial year means that any super contribution will be liable to the full surcharge.

By contributing $118,333 into super before June 30, as compared to not contributing, there will be an overall tax saving for Mr Davies of $18,900 (being income tax saved of 48.5% of $90,000, less contributions tax and surcharge payable by the fund of $24,750).

Rollover	$150,000
Additional non-deductible contribution	$28,333
Additional deductible contribution	$90,000
Less contribution tax at 15%	($13,500)
Less surcharge tax	($11,250)
TOTAL	**$243,583**

If the contribution is not made in June, then Mr Davies will be liable to tax at the rate of 48.5% on the $90,000. This is therefore a once off opportunity to reduce the overall tax!

(It should be noted, however, that the contributed amount will be subject to preservation and upon eventual withdrawal from the fund, the deductible portion will count towards Mr Davies' reasonable benefit limit and may be subject to tax.)

Wait until July

Mr Davies decides to hold off until 1st July. The additional amount available to invest will be diminished from $90,000 to $46,350, because of the amount payable to the ATO on the income for the June 30 year. There is still the $28,333 available from previous years after tax profits.

The total funds available to set up his SMSF will be:

Rollover	$150,000
Additional contributions	$74,683
TOTAL	**$224,683**

So in this situation, even with the accounting fee involved with establishing the fund prior to June 30, it might appear that the best option from a tax point of view for Mr Davies is to make the contribution in June.

However, Mr Davies is only 52. If it were expected that his income would allow significant annual contributions in future years, to the point where their superannuation savings could meet or exceed their RBL (reasonable benefits limit) then in fact the answer might be that it is better to wait until July in order to avoid the surcharge.

So there is no right or wrong answer.

The factors to be taken into account include:

- The age of the person considering the contribution;
- The amount of their existing superannuation savings;
- Their prospects of future income;
- Their immediate cash flow needs;
- Whether they have a transitional RBL;
- Their marginal tax rate;
- Whether their total income including super will make the fund liable for the surcharge in the 2005 year.

SuperGuardian June special

SuperGuardian is offering a 20% discount on the annual fee for SMSFs established during June for the 2005 financial year.

We specialise in prompt fund setup, and can have a SMSF established within 5 business days.

For further details, or for a client information pack, please phone **Olivia Molina** on **1300 787 576**.

Transition to Retirement

Recently passed legislation means that from 1 July 2005, people will become entitled to access their superannuation in the form of a 'non-commutable' pension once preservation age has been reached, regardless of employment or intention to work.

This means that people will have the option to commence a non-commutable pension, including a pension that will have characteristics more or less the same as the existing styles of non-commutable defined benefit pensions. However, Trustees of Self Managed Superannuation Funds must be careful to ensure that they are able to pay a defined benefit pension, as the 12 May 2004 defined benefit pension restrictions may prevent them from doing so.

The big news that has come with the passing of this new legislation is the introduction of the non-commutable allocated pension. This new provision will ensure that new SMSFs are not left out of the loop with the new rules, as their members may still commence a form of non-commutable pension upon reaching preservation age.

A non commutable allocated pension is how it sounds - an allocated pension that (generally) can not have lump sums drawn from the balance, apart from the pension payments. The only exception to this rule is that lump sums are still able to be drawn from any unrestricted non-preserved portion of the member's balance. Once the pensioner has met a condition of release, the pension will essentially become commutable, as per the standard allocated pension.

The tax benefits of the introduction of this pension can potentially be huge. Consider a 55 year old who is still working - they can salary sacrifice their pay to a superannuation fund, yet still draw an income stream in the form of an allocated pension from their existing superannuation balance.
The benefit of this is that they will enjoy a 15% tax rebate on their allocated pension income stream. Also, the gains and earnings on the savings generated on their salary sacrificed contributions will be subject to the concessional superannuation tax rates (generally 15% for accumulation funds and 0% for pension funds).

The danger of this strategy is exceeding the member's reasonable benefit limit through excessive contributions (the reasonable benefit limit is the maximum amount of super that an individual can take over their lifetime on a concessionally taxed basis). Exceeding the RBL will negate the benefit of the 15% rebate on pension payments (the portion in excess of the RBL is 'non-rebatable'). The contributions will also be subject to the 15% contributions tax.

An end to Superannuation Surcharge

The government recently announced that it plans to abolish the superannuation contributions and termination payments surcharge tax, effective from 1 July 2005. This is certainly welcome news for the higher income earners who have had to pay as much as 15% surcharge tax on superannuation contributions (in addition to the 15% contributions tax) in the past. This will make superannuation and even more attractive vehicle to save for retirement.

If there are any aspects of this newsletter you would like to discuss in more detail, please phone **Phil Jaquillard** or **Ed Bernard** at our office on **1300 787 576**.

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