Super: a tax effective way to save

GENESYS WEALTH ADVISERS

We see creating and looking after your wealth as a lifelong commitment. That's why we offer regular wealth advice and guidance throughout the different stages in your life. Together, we can build the financial wealth that lets you enjoy the truly important things in your life.

From time to time people waver in their commitment to contributing to superannuation, reducing their contributions or ceasing them altogether, if the stock markets go down.

When it comes time to retire, they may regret this mistake, because superannuation still remains the most tax effective way to save.

First things first: let's not confuse investment performance with the benefits of superannuation.

Many superannuation funds in Australia are invested directly or indirectly in shares, because historically this kind of investment has provided the highest long-term returns.

However, superannuation can be invested in many different asset classes, whether it be fixed interest securities, mortgages, property trusts, or Australian or international shares, provided the fund complies with superannuation regulations.

Some people are confused by the superannuation regulations – this is understandable, as superannuation law is complex. That's why most people need professional financial advice when it comes to planning for their retirement.

The one thing you need to remember is this: although you will pay tax of 15% on any super contribution for which you or your employer is able to claim a tax deduction, any realised capital gains are taxed at between 10% and 15%, and investment income within super is taxed at 15% during the accumulation phase.

This puts it way ahead of non-superannuation investments in terms of tax effectiveness. If your income is over $80,000, the tax rate paid on superannuation investment earnings is 15%, compared to at least 38% that you would pay on investment income outside super. Once your income is over $35,000 the marginal tax rate on investment income outside super is at least twice the tax rate on superannuation investment earnings.

As a further tax benefit, on retirement you can convert your super into an account based pension that is taxed at a very low rate and becomes tax free from age 60.

These aren't the only benefits of saving through super. Risk insurance, such as death cover or income protection insurance, can be much cheaper when purchased through super. Also, the law may protect your superannuation from creditors should you go bankrupt, subject to certain conditions and limits.

Who can contribute?

Generally, if you are under 65, you can contribute to superannuation. If you are between 65 and 75, you can contribute to super provided you work at least 40 hours in a consecutive 30-day period during the year in which you make the contribution. (You may be asked for proof of employment, such as a group certificate or invoice for your services.)

To deduct or not deduct?

There are two types of contributions made to superannuation and these are treated differently once you retire. Contributions for which a tax deduction has already been claimed (by you or your employer) are known as concessional contributions. Concessional contributions are subject to an entry tax of 15%.

Contributions made from after-tax funds (i.e. no deduction has been claimed) are called non-concessional contributions. These don't attract an entry tax and when you retire, the portion of your benefit attributable to non-concessional contributions is tax free.

Do you have to retire?

You can keep your money in super indefinitely.

In pension phase, there is no tax on investment earnings or realised capital gains.

Once you have reached your preservation age (between 55 and 60 depending on the year you were born) you may opt to move some or all of your super to a pension, while you are still working. This is a 'transition to retirement' pension and cannot be commuted to a lump sum until you meet a condition of release, such as retirement.

The pension is taxed in the usual way until you reach age 60 when it becomes tax free.

Your tax bill will reduce, and you may be able to increase your contributions to super via salary sacrifice which can allow you to grow your super until you retire.

Alternatively, the benefits of a transition to retirement strategy may help you reduce your working hours and maintain your lifestyle.

When you retire

There are significant tax benefits of super in retirement.

From age 60, no tax is paid on any lump sum benefits you take, and retirement income taken as a pension is not taxable and does not have to be included in your tax return. So, the marginal tax rate on any income you have outside of super may be reduced.

If you retire between 55 and 60, and you're a member of a taxed superannuation fund, the taxable component of any lump sum benefits you take is taxed at 15% (plus Medicare levy) on amounts over the low rate threshold. The low rate threshold is $150,000 from 1 July 2009, and will be indexed periodically. If you draw a pension, the taxable component is assessable at your marginal tax rate, but will attract a 15% tax offset to help reduce the tax payable.

From 20 September 2007, Centrelink removed the 50 per cent assets test exemption for new 'complying' income streams. At the same time the assets test taper rate was halved. This extends the range of assets which will qualify for a part pension on the basis of the assets test and may also result in increased age pensions, and/or travel or health concessions for some. The income test did not change.

When should you start planning for retirement?

There's only one person ultimately responsible for ensuring that you have a comfortable retirement: you! The government has made it all too clear that it expects today's and tomorrow's retirees to fund their own retirement, except in cases of financial hardship. It's never too early to start planning for your retirement, but conversely, it's never too late. You can always benefit from advice from a wealth adviser, even if you're about to retire.

So, when should you start thinking about your retirement funding? If you've read this far, no doubt you already have.

At Genesys, we want you to get the most out of life so you can take advantage of any opportunity and be prepared for any challenge – that's what wealth advice is all about.

For more information or to arrange a no-cost, no-obligation first consultation, please contact:
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