TOP 15 SUPERANNUATION & TAX STRATEGIES

WealthAdviser

Before you get started

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Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

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Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

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Introduction

They say that ignorance is bliss, but when it comes to superannuation it pays to know more rather than less. A lot of Australians think that they have it all figured out, but in fact, there are many misconceptions about superannuation, the most common one being that superannuation is just about retirement.

We're here to tell you that it's not so simple. We view superannuation not as an investment, but rather as a tax structure under which a number of investments can operate. Our aim as financial advisers is to show you how to use this tax structure in your life to maximum advantage.

In our world, superannuation is not the center of the retirement universe, but does have an important place as part of a plan to generate income in retirement.

When we talk about superannuation we are referring to both public offer funds and self-managed superannuation funds (SMSF), the latter offering more flexibility and the former requiring less work. The gap between what options these two types of funds provide is becoming smaller, as regulations change and public offer funds become less restrictive.

In the pages that follow we have provided examples of superannuation and tax strategies that can be used to optimise your financial situation. We have given a brief glimpse at what is possible but these examples are general information and not advice. In order to receive advice, you will need to see a financial adviser who can then analyse the details of your personal situation and make specific recommendations.

The rates referred to in this eBook apply to the 2019/20 financial year. The Medicare levy of 2% may also apply in addition to the tax rates stated in this eBook.

During this eBook, we mention concessional contributions and non-contributions. These are briefly explained below:

Concessional contributions

Concessional contributions are those made to a super fund which are included in the assessable income of the super fund and typically have been claimed as a tax deduction. They include employer contributions, superannuation guarantee and salary sacrifice contributions, as well as any personal contributions claimed as a tax deduction. From 1 July 2017, the annual concessional contribution limit was capped at $25,000, regardless of age.

Non-concessional contributions

Non-concessional contributions are not included in the superannuation fund's assessable income. They are not tax deductible and generally made with after tax monies. The standard annual non-concessional contribution cap is $100,000 for 2019/20.

1. Save Tax by adding to your Spouse's Superannuation

If your spouse earns less than $40,000 p.a. and you make a contribution to their superannuation, you will increase their superannuation and be able to claim a tax benefit.

You may be eligible to receive a tax offset of up to $540 (18% of up to a $3,000 contribution) if your spouse has:

- not exceeded their non-concessional contribution cap for the year. Non-concessional contributions are those made after tax.
- a total superannuation balance under $1.6 million (the general transfer balance cap).

The maximum offset is available if your spouse's income does not exceed $37,000 and progressively reduces to zero up to a maximum spousal income of $40,000.

For Example:

Harry earns $85,000 per annum (p.a.). His wife Julie is employed part-time during school hours as she takes care of their two young children. She earns $26,000 p.a. and a further $10,000 p.a. from investments.

Julie meets the eligibility criteria for Harry to claim a tax offset. If Harry contributes $3,000 into Julie's superannuation by the end of financial year, he will be able eligible for the full contribution and can offset his tax by $540, while Julie's superannuation balance will increase by $3,000.

2. Get the Government to Top up your Superannuation

If you earn less than the prescribed income and at least 10% of your income comes from eligible employment or carrying on a business, the Federal Government will top up funds you contribute to superannuation with an additional contribution. This is known as a government co-contribution.

If you contribute $1,000 to your superannuation fund, the government will boost your contrition by up to $500. To receive the full amount 50 cents for every $1 you contribute), you must earn less than $38,564 p.a. and meet the following criteria:

- you must not have exceeded your non-concessional contribution cap for the year).
- you must have a total superannuation balance under $1.6 million (the general transfer balance cap).

The government co-contribution progressively reduces to zero when your income reaches the maximum income threshold of $53,564 p.a. Note the assessable income threshold includes reportable employer superannuation contributions and reportable fringe benefits.

To be eligible, you will need to be less than 71 years of age, have made at least one after-tax contribution, be in full or part-time employment or run own business and include all the details of your after-tax contribution on your tax return.

For Example:

Andrew earns $36,000 p.a., is employed and wants to invest $1,000. He meets the government's superannuation co-contribution criteria and he chooses to invest in superannuation. The government adds $500 to his contribution of $1,000, as he is below the lower income threshold. This adds 50% to the amount he would have invested if he had chosen an alternative investment, such as a term deposit.

3. Sacrifice some of your Salary and Save Tax

There are a range of different strategies to take advantage of available cash flow, one of which is to salary sacrifice part of your employment income into superannuation.

If you expect to receive a bonus from your employer you may want to consider 'salary sacrifice', where you make extra contributions to your superannuation from your pre-tax income. You may also opt for a regular salary sacrifice arrangement with your employer.

This strategy enables you to pay less income tax and increase the size of your superannuation account.

For Example:

Sara earns $75,000 p.a. and has a comfortable level of surplus income. She wants to top up her superannuation and so 'sacrifices' $10,000 of her pre-tax salary to superannuation.

The $10,000 she has directed into her superannuation is only taxed at 15% upon entry to her superannuation fund, rather than at her marginal tax rate (32.5%).

As a result, she has invested $1,750 more money into superannuation than if she had taken the $10,000 as taxable income and then invested what was left after income tax.

4. Make Personal Deductible Superannuation Contributions

Since 1 July 2017, you have been able to claim personal superannuation contributions as a tax deduction, provided you meet the following criteria:

- you contribute to an eligible superannuation fund or a retirement savings account.
- you meet age restrictions (if you are aged between 65 and 74 you need to be still working).
- you send a 'Notice of intent to claim a tax deduction form' to your superannuation fund and receive an acknowledgement from them in writing.
- you don't exceed your annual concessional contributions cap.

By contributing to superannuation, you not only increase your superannuation, but also reduce your income tax bill. Your superannuation contribution will be taxed at 15% upon entry to your superannuation fund, but your income tax will be reduced by the amount of the contribution up to prescribed thresholds meaning you will benefit from the overall tax savings.

For Example:

Susan is a small business owner who earns $150,000 and would like to invest $10,000 into her superannuation this year. She is able to deduct this contribution amount from her taxable income, reducing this to $140,000.

Even though her superannuation contribution will be taxed at 15%, Susan will save $2,200 in tax overall and increase her superannuation balance by $8,500. This is the difference between the contributions tax into superannuation and Susan's 37% marginal tax rate.

5. Offset Capital Gains Tax (CGT) with Superannuation

Capital gains tax (CGT) is payable on the proceeds of the sale of an investment asset that has increased in value. The amount of CGT you pay is calculated after any losses have been taken into account, and after any discount if applicable (assets owned in your individual name for 12 months or more qualifies for a 50% discount).

As with strategy number 4 you may be able to claim a tax deduction for a superannuation contribution (up to prescribed limits) and thus offset the assessable capital gains. (This strategy could be of particular interest to pre-retirees and retirees.)

For Example:

Tom is self-employed, on the 37% marginal tax bracket and has recently sold some shares he has owned for three years. On the sale of the shares he realised a $50,000 capital gain. After a 50% CGT discount (as the shares were owned for at least 12 months) $25,000 is added to Tom's assessable income).

By making a personal tax deductible contribution to superannuation of $25,000, the assessable capital gain is reduced to $0. The superannuation contribution is taxed at 15% upon entry to Tom's superannuation fund, rather than at his marginal tax rate (37%).

The total tax payable has reduced from $9,250 to $3,750, resulting in a tax savings of $5,500.

6. Purchase Insurance through your Superannuation Fund and Save

You may be able to purchase life and total and permanent disability (TPD) insurance with before-tax dollars through your superannuation fund, utilising concessional contributions, such as employer or self-employed contributions.

This will enable you to increase the amount you are covered for, at the same cost. This strategy is based purely from a cash flow and tax perspective. It does not consider the potential merits of insurance outside versus inside superannuation fund, such as insurance definitions and benefit payment criteria and additional requirements of accessibility from superannuation. Further, there are tax consequences which may apply to the insurance benefit when paid from your superannuation fund to certain beneficiaries.

Some insurance policies also offer a linked cover that enables you to split the premium so that only a portion is paid from your superannuation fund and the rest from non-superannuation sources. You should compare your insurance options both inside and outside of your superannuation fund to make the best decision.

However, if you purchase insurance via your superannuation fund, the same tax concessions for superannuation contributions apply as have been discussed previously in this eBook for when you invest in superannuation.

For Example

George has an annual $700 premium for life and TPD insurance.

Assuming a marginal tax rate of 37%, George would need to devote $1,111 of his pre-tax salary to generate $700 after tax.

Alternatively, if George was to have this insurance owned via superannuation, he could salary sacrifice $824 of his pre-tax salary to pay this premium (as the contribution would be taxed 15% into the fund).

He has effectively increased his net cashflow.

7. Delay Withdrawing Superannuation Benefits to Save Lump Sum Tax

Generally, your superannuation is made up of two components; tax free and taxable.

Between preservation age (currently 55 for people born before 1 July, 1960) and age 60 there will be tax payable (15%) once the amount of the taxable component (taxed element) that you withdraw exceeds $210,000.

From age 60 there will be no tax payable on this taxed component (tax element) when withdrawn, regardless of component.

For this reason, you may want to consider deferring taking money out of superannuation if you are under age 60, as you may benefit from significant tax savings.

For Example:

Jenny, aged 58, has $300,000 in superannuation which is all taxable.

She would like to receive a lump sum payment of superannuation.

If she defers this until she turns 60, she will save $15,000 because once she reaches 60 she is not required to pay lump sum tax on the Element Taxed of a taxable component from her superannuation fund.

8. Catch-up concessional contributions

Since 1 July 2018, people with total superannuation balances under $500,000 will have been able to carry forward any unused concessional contribution cap space that they haven't used on a rolling basis for a period of five years.

Only unused cap space from 1 July 2018 can be carried forward. Any unused cap space after five years will expire.

This equates to a total potential concessional cap of $125,000 over the next five-year period.

For Example:

Steve makes concessional contributions via salary sacrifice of $10,000 p.a. over four years from 1 July 2018 (i.e. $40,000 in total). His employer also contributions $8,000 p.a. superannuation guarantee for the next four years (i.e. $32,000 in total). In the 5th year, he has a remaining concessional contribution cap of $53,000 (i.e. $125,000 minus $72,000). This could be utilised between superannuation guarantee and catch-up salary sacrifice and personal deductible concessional contributions, without exceeding his limit.

This strategy will allow Steve to maximise his investment in the tax-effective superannuation environment.

9. Bring forward non-concessional contributions

If you are aged under 65, you can bring forward your non-concessional contribution cap for up to three-years to increase your cap in the current year.

The bring forward rule is triggered in the year that your contribution exceeds the standard non-concessional contribution cap, currently $100.000. Where the bring forward rule was initiated after 1 July 2017, the total bring forward limit is $300,000 (three times the annual non-concessional contribution cap).

Where the non-concessional contribution bring-forward was triggered in 2015/16 or 2016/17, alternative transitional rules apply.

Total superannuation balance at previous 30 June	Contribution and bring forward available
Less than $1.3 million	3 years ($300,000)
Between $1.3 and $1.4 million	3 years ($300,000)
Between $1.4 and $1.5 million	2 years ($200,000)
Between $1.5 and $1.6 million	1 year ($100,000)
$1.6 million	Nil

Source: Australian Government, Superannuation Fact Sheet 04, 17 October 2016.

The amount of non-concessional contributions you can bring forward is also dependant on your total superannuation balance at 30 June the previous financial year. Individuals with balances close to $1.6 million will only be able to access the number of years of bring-forward non-concessional contributions that would increase their superannuation balance up to $1.6 million. This is illustrated in the table below, applicable for the 2017/18 and subsequent years:

For Example:

Lisa is 52. She wants to take advantage of the bring-forward arrangement by making a non-concessional contribution of $150,000 for the 2017/2018 financial year. Her total superannuation balance as at 30 June 2017 is $800,000.

She makes the $150,000 contribution to trigger the bring-forward rule. This allows her to exceed her annual $100,000 contribution cap in the 2017/2018 financial year. In the subsequent two financial years, she will be able to contribute a maximum of $150,000 (i.e. her $300,000 cap over the three-year period minus her initial contribution of $150,000 in the first year).

By taking advantage of the bring-forward arrangement, Lisa is able to get more funds into the tax-effective superannuation environment earlier, helping her funds to grow.

10. Splitting of superannuation contributions to manage transfer balance caps

Your transfer balance cap is the limit on the total amount of superannuation that you can transfer into a tax-free income stream. From 1 July, 2017, the standard transfer balance cap is $1.6 million.

However, you can split your superannuation contribution with your spouse so that you can attempt to balance out your transfer balance caps. Couples can therefore target each of their individual $1.6 million transfer caps to maximise their combined transfer cap amount of $3.2 million.

This can be achieved by splitting contributions with your spouse. Up to 85% of concessional contributions from a previous year can be transferred to your spouse, provided the receiving spouse is aged under 65.

Contributions can be split after the end of the financial year and only in the subsequent financial year. For instance, contributions made in the 2017/18 year can be split in the 2018/19 year.

For Example:

Jeff is age 54 earns $130,000 p.a. and wants to make the maximum concessional contribution each year (i.e. $25,000). He intends to retire at age 65. However, Jeff believes he will exceed his transfer balance cap before he reaches that age.

His spouse, Wendy is age 50, but currently has a much lower superannuation balance. She has recently started working full-time again and earns $80,000 p.a.

Jeff could split up to 85% of the concessional contributions he makes each year with Wendy, with the intent of minimising his transfer cap. Assuming he contributes the maximum annual concessional contribution of $25,000, the splittable amount is $21,250.

This strategy will maximise the combined amount that Jeff and Wendy will eventually be able to transfer into a tax-free income stream because they will both remain under their individual $1.6 million caps.

Note: 100% of untaxed concessional contributions can be split e.g. government superannuation schemes.

11. Defer Asset Sales to Manage Capital Gains Tax (CGT)

You may be able to reduce the amount of tax that you will be required to pay in the sale of an asset by selling the asset(s) in a future income year when you are on a lower marginal tax rate.

For instance, if you are considering selling a profitable asset this financial year when you are on the top marginal tax rate, you may want to defer the sale to the following financial year, when you are on a much lower marginal tax rate.

This can reduce the amount of capital gains tax (CGT) you are liable for.

For Example

Amanda is a GP taking a year off to volunteer overseas.

She has held shares for over a year which she wants to sell.

The sale will result in a profit (capital gain) of $5,000.

By holding off selling until the following financial year, when her tax rate will change to a much lower bracket (from 37% to 19%), she will save on tax.

It will reduce the amount of CGT she will pay on the sale of the shares.

12. Pay 12 months Interest in Advance on an Investment Loan

Paying the interest on an investment loan in advance for the following financial year could enable you to enjoy a larger income tax deduction this financial year.

This is because you are able to claim the interest as a tax deduction this financial year, even if the interest is for servicing the loan in the following financial year.

For Example:

Paul earns $70,000 p.a. and is using a gearing strategy to invest as part of his long-term wealth creation strategy. He takes out an investment loan for $100,000 at a rate of 7.5%.

He pays 12 months' interest in advance and can deduct this from his income tax for the current financial year.

In doing this, his taxable income is reduced from $70,000 to $62,500 for the current financial year.

13. Pay for 12 months Income Protection Insurance Premiums in Advance

Income protection insurance protects your income if you are unable to work for an extended period of time due to injury or illness.

If you purchase income protection insurance outside of your superannuation fund you are able to pay for premiums in advance and claim the expense as a tax deduction in the current financial year.

For Example

Ken earns $100,000 p.a. and would like to take out income protection insurance to cover 75% of his salary should he be unable to work for an extended period of time due to injury or illness. His insurer has quoted him annual premiums of $4,560.

He is able to claim next year's premium as a tax deduction this financial year, reducing his taxable income by $4,560.

14. Implement a Superannuation Re-contribution Strategy

Superannuation law is prohibitive in the list of people who are classed as dependents for the purpose of receiving superannuation death benefits tax free; the most common exception is adult non-dependent children.

One way of reducing the future tax liability for a loved one who does not meet the definition of a dependent is for a person over the age of 60 who has a high proportion of 'taxable component' (taxed element) benefits to withdraw funds from superannuation as a tax-free lump sum and re-contribute these funds back into superannuation by way of a non-concessional contribution. The usual superannuation withdrawal rules apply and a full condition of release must be met by the member.

For Example:

John, age 61; is retired and has $300,000 in superannuation (all taxable component). If he were to die and these benefits were to be left to Stephen, his adult non-dependent son, tax would be payable by Stephen on the benefits at 15%. However, John may withdraw his benefits from superannuation and then utilise the 'non-concessional bring forward rule' to make a contribution of $300,000. These re-contributed benefits would be now tax free when received by Stephen, as a non-dependent beneficiary. Alternatively, Stephen would incur tax of $45,000.

15. Transition to Retirement (TTR) Strategy

A superannuation condition of release allows for a person who has reached preservation age to access their superannuation benefits by drawing an income stream in the form of a non-commutable account based income stream.

As with strategy 7, while a member is under age 60 there will be tax payable on the taxable component of the income stream which attracts a tax offset of 15%. The tax free component will be received tax free. From age 60 the entire income stream will be tax free regardless of component.

By converting the superannuation benefits to the pension phase there will be no future income tax payable on the earnings of this income stream.

The tax exemption status on earnings of assets supporting Transition to Retirement income streams was removed from 1 July 2017. Once the member meets a full condition of release, such an income stream would be classed as in the 'retirement phase' and so earnings on the assets to support the income stream would be tax exempt.

Until a member meets a full condition of release they are only able to withdraw a maximum of 10% of their account balance in the form of a transition-to retirement income stream. This strategy can be used effectively with the earlier strategies relating to salary sacrifice and personal tax deductible contributions.

For Example:

Margaret is 59 years old and has $350,000 in her superannuation account. Margaret decides to start drawing an income stream and converts her superannuation to a transition to retirement. As such she can draw between the minimum of $14,000 or the maximum income stream of 10% of her account or $35,000.

Conclusion

Superannuation and taxation strategies are not intended to be ways to dodge paying tax or getting around current legislation.

There is, however, no point paying more tax than you need to. There is also no point paying tax before you need to pay it; which would result in the Australian Government having use of your money, ahead of time, limiting your ability to use these funds for your own cash flow and investment plans.

In contrast to strategies, you should absolutely avoid any schemes that indicate or promise that you will avoid paying taxes. The Tax Office is across most of these and if they haven't discovered them yet, they will.

The superannuation and taxation strategies outlined in this eBook are legitimate ways to plan your investments better, allowing you to maximise the returns on your investment, while staying within the laws and regulations relating to superannuation and the Tax Office.

We hope that you found the concepts and suggestions in this eBook useful. We strongly recommend, though, that you seek the advice of your Accountant, Tax Agent and Financial Adviser before you make your investment decisions.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

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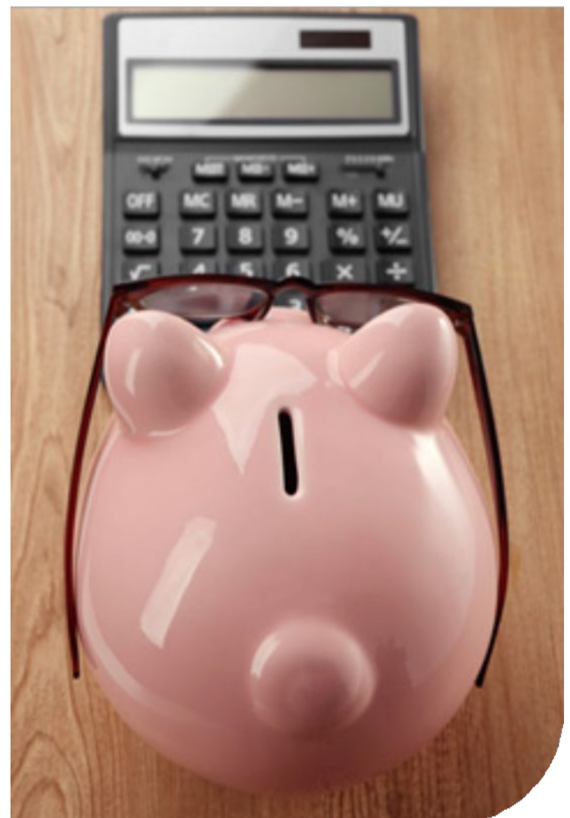

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