

Strategy Brief

Strategy	Superannuation
What is involved?	<ul style="list-style-type: none"> ■ Investing money in your superannuation rather than your own name; or ■ Redeeming investments that are either underperforming or misbehaving and then contributing the proceeds into superannuation for re-investment.
Why it works	<p>✓ You will reduce tax on future investment earnings thereby increasing your retirement savings.</p> <p>Income earned on investments within super are taxed at a maximum of 15% and capital gains at a maximum of 10%, whereas in your own name income earned on investments is taxed at up to 46.5% and capital gains at up to 23.25%.</p>
Who can benefit from implementing this strategy?	<p>✓ Anyone that is eligible to make a contribution to super.</p>
Issues to be aware of	<ul style="list-style-type: none"> ■ You lose access to money contributed to super until you are aged between 55 and 60 (depends on your date of birth) and you may also need to be retired. ■ The Australian Government can change the rules that govern super. ■ There are limits to how much you can contribute to superannuation each year.
Related strategies	<p>If implementing this strategy, also refer to the following strategy briefs:</p> <ul style="list-style-type: none"> ■ Government Co-Contribution strategy ■ Tax deductible super contributions strategy ■ Investments that misbehave
Our advice will ensure that:	<ul style="list-style-type: none"> ■ Underperforming and misbehaving assets are identified and redeemed in a strategic manner. ■ You contribute your money to super in the most tax efficient manner. ■ You don't fall foul of the contribution limits (falling foul can cost you penalty tax). ■ The money in your superannuation account is invested in a strategic manner. ■ Investment returns are not reduced by unnecessary fees, tax or commissions.

Case Study

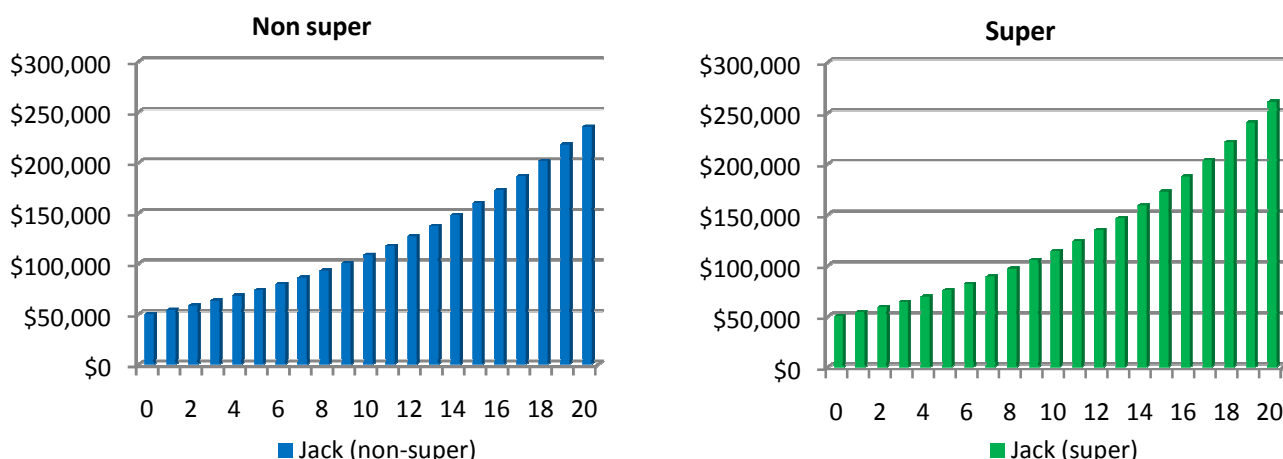
Jack is aged 40 and earns \$90,000pa from employment. He has received an inheritance of \$50,000 which he would like to invest. Jack understands that he will lose access to his money until he is aged 60 if he contributes it to superannuation but is interested to see how much financial benefit he could gain by investing his inheritance into superannuation rather than in his own name over the next 20 years.

Results:

If Jack invests his inheritance into an investment that earns 9%pa in his own name, it will be worth \$235,500 in twenty years time.

Alternatively, if he invests his inheritance into superannuation, Jack's super account is worth \$261,000. Jack is \$25,700 better off after 20 years by implementing this strategy as illustrated in the graphs below.

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The assumed investment returns on Jack's non-super investment and his super account are exactly the same, so the difference is a result of the amount of tax Jack pays to the Australian Taxation Office.

Over the 20 year period Jack pays \$18,400 less in tax by implementing this strategy. The difference between the two strategies is \$25,700 and whilst \$18,400 is due to paying less tax, the other \$7,300 was the compounding investment returns on the annual tax savings.

Other information about superannuation

There are two types of contribution that Jack can make to superannuation. The first is a **non-concessional contribution** which is a contribution for which no tax deduction is claimed for the contribution. As no tax deduction is claimed by either Jack or his employer, no tax is levied on the contribution and no tax is payable when the funds are withdrawn from super (but the earnings on the contribution will have tax applied to it). In the example above, Jack made a non-concessional contribution.

Limits apply to the amount that can be contributed to superannuation as a non-concessional contribution each year. Jack can contribute up to \$150,000 per year and he also has the option of contributing \$450,000 but would not be able to make any more contributions for another three financial years.

The second type of contribution is a **concessional contribution**, which is a contribution for which a tax deduction is claimed. If Jack is self employed then he could claim the tax deduction himself, but if he is an employee then he could elect to arrange to salary sacrifice to superannuation (and then use the inheritance to finance living expenses). Tax of 15% is levied on the contribution and tax may be levied on these funds when deducted from superannuation. A limit of \$50,000 can be contributed to superannuation as a concessional contribution each year by either Jack (if he is self employed) or his employer. If Jack is aged 50 in any year leading up to the 2012/12 financial year, a limit of \$100,000 would apply.

For more information call Matthew Ross on (03) 8862 6415 or email enquiries@aifa.com.au

Assumptions:

Total return of 9.0%pa in both scenarios (income return of 3.5%pa; growth return of 5.5%pa)

Jack also receives 9%pa superannuation guarantee from his employer; this has not been included in this projection.

Income is 25% franked

20% of the growth return is taxed due to rebalancing of asset allocation.