



SUPER RETIREMENT SOLUTIONS

Specialists in Self Managed Superannuation
A division of McConachie Stedman

Super Newsletter

June 2010



Minimum Pension Payments

In September 2009 the Australian Taxation Office confirmed that the income from assets used to provide pension benefits will only be exempt from taxation in cases where at least the minimum pension amounts has **actually been paid**.

Consequently, in order to be entitled to claim the exemption it is imperative that members have drawn their minimum pension amount in full prior to 30 June 2010.



2010 Superannuation Contributions

Superannuation contributions can be divided into two types—concessional (before-tax) and non-concessional (after-tax). Each type of super contribution is subject to a contributions cap. The contributions cap sets a limit on the amount of contributions you can make in any one year. If you exceed the cap, your excess contributions will be subject to additional tax.

WHAT IS A CONCESSIONAL CONTRIBUTION ('CC')

A concessional contribution is generally any contribution made to a superannuation fund that is included in the assessable income of the fund, and includes all contributions made by an employer, and personal contributions made by a member for which they intend to claim as a tax deduction.

TAX TREATMENT OF CONCESSIONAL CONTRIBUTIONS

Concessional contributions are taxed in the fund at the rate of 15%. However, when concessional contributions that exceed the applicable contribution caps (as below) are subject to an additional 31.5% tax on top of the 15% contributions tax.

CAPS ON CONCESSIONAL CONTRIBUTIONS

AGE	CONTRIBUTION CAP	
	2010	2011
Age less than 50	\$25,000	\$25,000
Age 50 or more	\$50,000	\$50,000

It is important to note, this contribution limit is a **'per person'** limit and includes contributions made to all superannuation funds, from all sources (including salary sacrificed contributions).

WHAT IS A NON-CONCESSIONAL CONTRIBUTION ('NCC')

A non-concessional contribution (formerly known as an undeducted contribution) is generally any contribution made to a superannuation fund that is not included in the assessable income of the fund, and includes personal contributions made by a member for which they are not intending to claim a tax deduction and spouse contributions.

TAX TREATMENT OF NON-CONCESSIONAL CONTRIBUTIONS

Non-concessional contributions are not subject to the 15% contributions tax. However, contributions which exceed the non-concessional contributions caps (as below) are subject to excess contributions tax at a rate of 46.5%.

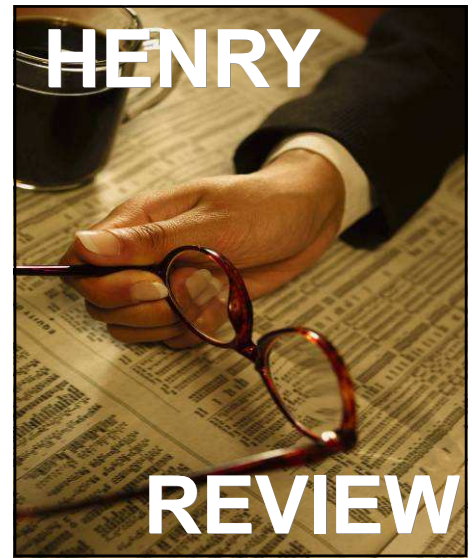
CAPS ON NON-CONCESSIONAL CONTRIBUTIONS

AGE	CONTRIBUTION CAP
Less than 65 during financial year	Annual limit – \$150,000 Three year limit - \$450,000
Between 65 and 74 for full financial year	Annual limit – \$150,000

Making a non-concessional contribution that is more than the annual cap is known as a 'bring forward'. The maximum bring forward for the 2010 year is \$450,000. When you contribute more than \$150,000 in non-concessional contributions in one year, you automatically trigger the bring-forward rules for the following two years.

The long awaited public release of the Henry Report and the Government's response took place on 2 May 2010. The report contains wide-sweeping recommendations to reform Australia's taxation system. However, at this stage, the Government's response is limited. Whilst some proposals have been accepted in part and some have been rejected outright, the Government has not yet responded on a large number of the recommendations.

The following is a summary of the superannuation related issues only.



PROPOSALS ADOPTED

The Government took the opportunity to announce a number of changes to superannuation, none of which were covered by the Henry Report. Nonetheless the changes included:

- The Superannuation Guarantee (SG) rate will increase from 9% to 12%, gradually from 1 July 2013. There will be a 0.25% increase in each of the first two years and then further increases of 0.5% thereafter until 1 July 2019 when SG will reach 12%.
- The age limit on SG contributions will increase from age 70 to age 75, commencing on 1 July 2013.
- The current transitional concessional contribution limit of \$50,000 for those over 50 will remain for members whose superannuation balances are less than \$500,000. The \$50,000 cap will also be indexed.
- From 1 July 2012, the Government will provide a superannuation contribution of up to \$500 for individuals on adjusted taxable incomes of less than \$37,000. The amount payable under this measure will be calculated by applying a 15% matching rate to the concessional contributions made by or for the individual.

PROPOSALS REJECTED

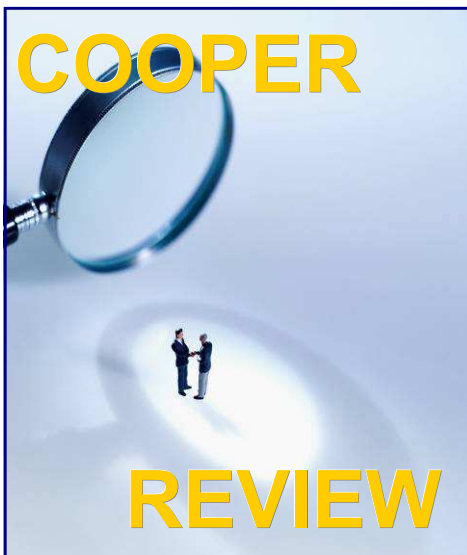
The following is a list of the Henry Report recommendations which have been rejected by the Government :

- Aligning the preservation age with the Aged Pension Age
- The ability to purchase a lifetime annuity product from the Government
- The removal of the one-third capital gains tax (CGT) discount for complying superannuation funds (by rejecting outright any changes to the CGT discount)

PROPOSALS NOT RESPONDED TO

The following is a list of the Henry Report recommendations that the Government has not yet responded to. These recommendations may be subject to further consideration and perhaps introduced at a later time:

- The 15% fund tax on superannuation contributions should be removed. Employer contributions would instead be treated as income in the hands of the individual and taxed at marginal tax rates. To provide equity, a refundable tax offset should be provided for all superannuation contributions up to an annual cap of \$25,000 (indexed, double for those aged 50 or over).
- The rate of tax on superannuation fund earnings should be halved to 7.5% and it should apply to all earnings, both accumulation funds and funds in pension phase.
- Superannuation funds should retain their access to imputation credits.
- The current restriction on people age 75 or over from making superannuation contributions should be removed (but subject to a work test).
- There should be a method of linking superannuation records, such as TFNs, to make it easier for people to manage their superannuation.
- The current small business CGT concessions should be rationalised and streamlined by:
 - Removing the 50% active asset reduction and the 15 year exemption
 - Increasing the lifetime limit of the retirement exemption (currently \$500,000) by permanently aligning it with the CGT cap for superannuation contributions (currently \$1.1 million)
- SG contributions should be paid at the same time as wages.
- Employers should report superannuation contributions to their employees when a contribution is made.
- A superannuation portal should be developed where people can interact with government agencies and get information on retirement incomes.



The review into Australia's superannuation system, headed by Mr Jeremy Cooper, on 29 April 2010 released its preliminary report on self managed superannuation funds [SMSFs]. Below is a summary of the main recommendations of the review panel.

- The panel does not believe that any particular academic, professional or other qualification requirement should be imposed on SMSF members. However, the panel has recommended that trustees who breach SIS be forced to undergo mandatory education, at their own cost.
- The borrowing rules for superannuation fund be reviewed in two years' time to ensure that borrowing has not become, and does not look like becoming, a significant focus of superannuation funds.
- In relation to transfers of assets between SMSFs and related parties, if an underlying market for the asset exists, all acquisitions and disposals must be conducted through that market (e.g. off market share transfers for ASX listed shares would be prohibited). Where an underlying market does not exist (e.g. business real property), the acquisition or disposal would need to be supported by an independent valuation by a registered valuer (e.g. an opinion by a real estate agent would no longer be sufficient).
- The acquisition of collectables and personal-use assets (such as artworks, jewellery, antiques, wine collections, exotic cars and yachts) would be prohibited. SMSFs that currently own such assets would have until 30 June 2020 to dispose of those assets;
- The 5% in-house asset limit be removed for SMSFs such that no in-house assets would be allowed. SMSF with existing in-house assets within the 5% level would have until 30 June 2020 to dispose of those assets;
- An online SMSF resource centre to help SMSF trustees build skills and make better decisions.

It is important to recognise that these are preliminary recommendations only. A final report on SMSFs is due to be released on 30 June 2010. The Government will then announce which (if any) of the recommendations it will adopt.

Self Managed Superannuation Fund Statistics

Some interesting statistics on self managed superannuation funds as at 31 December 2009 :

- At 31 December 2009, there were a total of 416,145 self managed superannuation funds, and 794,057 members.
- Approximately 64% of SMSFs have been established for more than five years, 38% have been established for more than 10 years.
- Currently, around 71% of SMSFs have individual trustees. In recent years, nearly 90% of SMSFs have been established without a corporate trustee.
- Nearly 39% of all SMSF members are self-employed or derive income from their own business.
- The majority of SMSF members are between the ages 45 and 54.



Retirement—Allan Rother

The staff of Super Retirement Solutions would like to congratulate and wish Allan Rother all the best on his retirement from McConachie Stedman from 1 July 2010.

Allan has been a Partner of McConachie Stedman for 21 years and managing Partner of Super Retirement Solutions since its inception in 2006.

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