MLC
With you

Smart strategies for your super

2012/13

Make your super count

Superannuation is still one of the best places to accumulate wealth and save for your retirement. The main reason, of course, is the favourable tax treatment.

When you invest in super, earnings are generally taxed at a maximum rate of 15%. A low tax rate means your money can grow faster than investments that are taxed at a higher rate.

Depending on your circumstances, there may be some other great incentives – like claiming a tax deduction for your own contributions or receiving a co-contribution from the Government.

Also, when you reach age 60 or over, all the benefits you receive from a taxed super fund will generally be tax-free.

However, to get the most out of super you need to be 'super smart'. You need to understand how the rules work and use them to your advantage. You also have to keep up with the latest rule changes so you can take appropriate action.

In this booklet, we outline eight clever strategies that could help you achieve your lifestyle and financial goals. Each of these strategies has long-term implications, so by making the right moves now, you may benefit in the future.

This booklet serves as a guide only. To find out if a particular strategy suits your circumstances, we recommend you speak to a financial or tax adviser.

Nearing Retirement?

Our 'Smart strategies for maximising retirement income' booklet outlines a range of strategies that could enable you to convert your super into a regular and tax-effective income.

To obtain a copy, contact your financial adviser or call MLC on **132 652**.

Important information

The strategies covered in this booklet assume the super fund is a complying fund (see Glossary). The information and strategies provided are based on our interpretation of relevant superannuation, social security and taxation laws as at 1 July 2012. Because these laws are complex and change frequently, you should obtain advice specific to your own personal circumstances, financial needs and investment objectives, before you decide to implement any of these strategies. The investment returns shown in the case studies are hypothetical examples. They do not reflect historical or future returns of any specific financial products.

Disclaimer: MLC is not a registered tax agent. If you wish to rely on the general tax information contained in this guide to determine your personal tax obligations, we recommend that you seek professional advice from a registered tax agent.

Contents

Public offer versus self-managed super

There are generally two types of super funds you could use to meet your living expenses in retirement.

	Public offer super	Self-managed super
The key differences	• In a public offer super fund, an unrelated trustee takes care of all the fund's reporting, management, tax and investment responsibilities. • Public offer funds generally suit people who prefer to outsource the management of their super or have smaller account balances.	• A self-managed super fund, also known as a DIY fund, has fewer than five members. Generally, all members are trustees of the fund and all the trustees are members. If you set up a self-managed super fund, you take on all the responsibilities of a trustee. • Self-managed super funds are generally more appropriate for people with larger account balances (upwards of $250,000) who want to be actively involved in the management of their super.
The benefits	• You don't have to worry about the cost and legal hassle of setting up your own fund, or the ongoing responsibilities of running the fund. • You can choose from a range of managed investment options and, in some cases, direct shares. • Your investment receives concessional tax treatment.	• Because you're a trustee of the fund, you can exercise more direct control over the investment strategy. • You have a choice of managed investments, direct shares and private assets[1] such as direct property. • Your investment receives similar concessional tax treatment to a public offer fund.
Tips and traps	• While you can only invest in the options offered by the fund, a broad choice of investment options is usually available. • Because the trustee makes all the decisions in relation to the management of the fund, you can sit back and relax while someone else does all the hard work. Keep in mind this also means you typically have no say in the way the fund is managed. • Some public offer funds offer reduced management fees for larger account balances. • Most of the strategies in this book can be implemented through a public offer fund.	• The secret to successfully managing your own super fund is to get expert advice. Don't try to do it all yourself. • As trustee of your own fund, you and the other trustees are responsible for the administration of the fund and complying with regulatory requirements. This responsibility also applies to any tasks outsourced to third-party service providers. • There are many costs involved in setting up your own fund, including establishment costs, legal costs, ongoing administration costs and investment costs. • There are companies that can help you set up and administer a self-managed super fund. • Most of the strategies in this book can be implemented through a self-managed super fund. • There are currently over 468,133[2] self-managed super funds in Australia. To find out whether a self-managed super fund is right for you, talk to a financial or tax adviser.

1 There are specific restrictions on the types of assets you can acquire in a self-managed super fund. To find out more, speak to a financial or tax adviser.

2 As at July 2012. Source: ATO SMSF Statistics (issued March 2012).

Strategies at a glance

Strategy	Suitable for	Key benefits	Page
1 Boost savings and minimise tax via salary sacrifice	Employees	• Pay less income tax • Make a larger after-tax investment	4
2 Divert cashflow from your home loan into super	People with a home loan	• Use your cashflow more tax-effectively • Increase your retirement savings	6
3 Grow your super without reducing your income	People aged 55 or older and still working	• Benefit from an income stream investment while you're still working • Increase your retirement savings	8
4 Invest non-super money in super	People with money invested outside super	• Reduce tax on investment earnings • Increase your retirement savings	10
5 Top up your super with help from the Government	People who earn less than $46,920 pa, of which at least 10% is from eligible employment or carrying on a business	• Receive a Government co-contribution (up to $500) • Increase your retirement savings	12
6 Contribute to super and offset capital gains tax	People with non-super investments who are eligible to make personal deductible super contributions	• Reduce (or eliminate) capital gains tax • Increase your retirement savings	14
7 Purchase Life and TPD insurance tax-effectively	People who: • are eligible to make salary sacrifice contributions • are eligible to receive co-contributions • have a spouse on a low income, or • are self-employed	• Reduce the premium costs • Enable certain beneficiaries to receive the death or TPD benefit as a tax-effective income stream	16
8 Convert business capital into tax-free retirement benefits	Small business owners planning to retire	• Reduce (or eliminate) capital gains tax • Increase your super benefits	18

Strategy 1
Boost savings and minimise tax via salary sacrifice

If you're an employee, you may want to sacrifice some of your pre-tax salary, wages or a bonus payment into your super fund.

What are the benefits?

By using this strategy, you could:

- pay less income tax, and
- make a larger after-tax investment for your retirement.

How does the strategy work?

Salary sacrifice involves getting your employer to contribute some of your pre-tax salary, wages or a bonus payment directly into your super fund.

The key advantage of doing this is that the amount you sacrifice into super will generally be taxed at a maximum rate of 15%[1], not your marginal rate (which could be up to 46.5%[2]).

Depending on your circumstances, making salary sacrifice super contributions could therefore reduce the amount of tax you have to pay on your salary, wages or a bonus by up to 31.5% and enable you to make a larger investment for your retirement.

To use this strategy, you need to make an arrangement with your employer that is prospective in nature. In other words, you can only sacrifice income that relates to future employment.

Generally when sacrificing regular salary or wages, the arrangement needs to commence before you have performed the work to earn the entitlement to the salary or wage. This might be the point just before the first day which the next pay period relates, however it depends on your pay cycle and arrangements.

However, you may only salary sacrifice a bonus payment to which you have no pre-existing entitlement.

In practice, this often means the arrangement must be made no later than the day before your employer determines your bonus entitlement.

In both cases, it's important to have the agreement thoroughly documented and signed by both parties.

To find out whether salary sacrifice suits your needs and situation, you should speak to a financial or tax adviser.

Note: All super annuation contributions, including salary sacrifice contributions, can't be accessed until you meet a condition of release (see FAQs on page 23).

1 The Government announced in the 2012 Federal Budget that if an individual earns $300,000 or more, they will pay an additional 15% tax on concessional super contributions (see Glossary on page 26). At the time of printing this guide this measure had not been legislated.

2 Includes a Medicare levy of 1.5%.

Case study

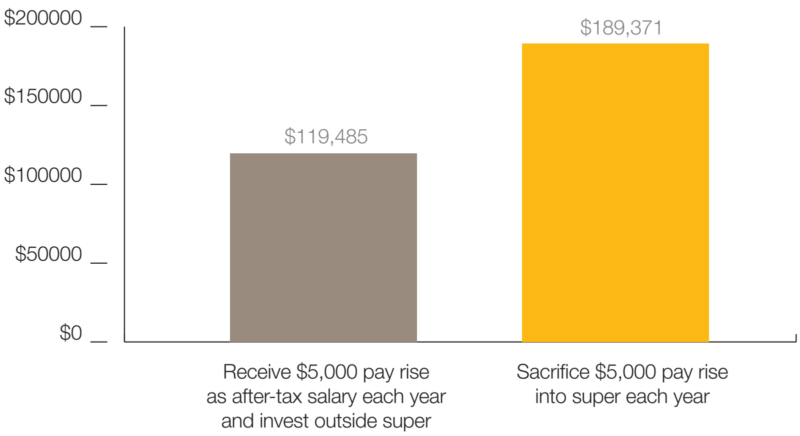
William, aged 45, was recently promoted and has received a pay rise of $5,000, bringing his total salary to $100,000 pa. He's paid off most of his mortgage, plans to retire in 20 years and wants to use his pay rise to boost his retirement savings.

After speaking to a financial adviser, he decides to sacrifice the extra $5,000 into super each year. By using this strategy, he'll save on tax and get to invest an extra $1,175 each year, when compared to receiving the $5,000 as after-tax salary and investing outside super.

Per year	Receive pay rise as after-tax salary	Sacrifice pay rise into super
Pre-tax pay rise	$5,000	$5,000
Less income tax at 38.5%[1]	($1,925)	(N/A)
Less contributions tax at 15%	(N/A)	($750)
Net amount to invest	$3,075	$4,250
Additional amount to invest		**$1,175**

William's adviser also explains that salary sacrifice can be particularly powerful if done over long time periods. For example, if William salary sacrifices $5,000 pa in pre-tax salary for the next 20 years, he could have an extra $73,239 for his retirement. This is because, in addition to making a larger after-tax investment each year, earnings in a super fund are taxed at a maximum rate of 15%, not his marginal rate of 38.5%[1].

The benefits of salary sacrifice over 20 years



Note: William pays no lump sum tax on his super benefit in 20 years, as he will be over age 60.

1 2012/13 personal tax rates are used which includes Medicare Levy.

2 From 1 July 2012 the Government has proposed to reduce the current maximum Government co-contribution from $1,000 to $500. If legislated, the matching rate will reduce from $1 to $0.50 for income levels between $31,920 to $46,919. At the time of printing this guide, this proposal had not been legislated.

Tips and traps

- Salary sacrifice may reduce other benefits such as leave loading, holiday pay and Superannuation Guarantee contributions, as these benefits are often calculated on your base salary.
- Before you make salary sacrifice super contributions, you should make sure you don't exceed the concessional contribution cap (see FAQs on page 21).
- It may be worthwhile converting your home loan to interest-only and contributing pre-tax salary into super via salary sacrifice (see Strategy 2).
- If you're aged 55 or over and still working, you may want to sacrifice a portion of your pre-tax salary into super and commence a transition to retirement pension to replace your income shortfall (see Strategy 3).
- If you earn less than $46,920 pa, of which at least 10% is from eligible employment or carrying on a business, you may want to make personal after-tax super contributions. This may enable you to qualify for a Government co-contribution[2] of up to $500 (see Strategy 5).

Assumptions: A 20 year comparison based on $5,000 pa of pre-tax salary. Both the super and non-super investments earn a total return of 7.7% pa (split 3.3% income and 4.4% growth). Investment income is franked at 30%. All investment income is reinvested. Both investments are cashed out at the end of the 20 year period. All figures are after income tax (at 15% in super and 38.5% outside super) and capital gains tax (including discounting). These rates are assumed to remain constant over the investment period. William's salary of $100,000 pa isn't indexed.

Strategy 2
Divert cashflow from your home loan into super

If you're currently making principal and interest home loan repayments, you may want to switch to an interest-only loan and invest more in super.

What are the benefits?

By using this strategy, you could:

- use your cashflow more tax-effectively, and
- retire with more super to meet your living expenses.

How does the strategy work?

This strategy involves three key steps.

First, you need to convert your home loan to interest-only. This will reduce your repayments and increase your surplus cashflow[1].

You then need to arrange with your employer to sacrifice some of your pre-tax salary into your super fund.

This will enable you to use your cashflow more tax-effectively because salary sacrifice super contributions (which are made from your pre-tax salary) are generally taxed in the super fund at a maximum rate of 15% – see Strategy 1.

Conversely, home loan repayments are made from your after-tax salary (ie after tax is deducted at your marginal rate of up to 46.5%[2]).

Finally, you need to pay off your outstanding home loan debt (in full) at age 60 or over by making a tax-free withdrawal from your super.

While you will pay more interest over the life of the loan, this strategy could enable you to increase your super and still pay off your home loan by the time you retire.

To find out whether you could benefit from this strategy, you should speak to a financial or tax adviser.

Note: The results from this strategy will depend on a range of factors such as your marginal tax rate, the home loan interest rate, the investment returns and your time horizon.

1 In this context, surplus cashflow is your after-tax income from all sources, less your living expenses and home loan repayments.

2 Includes Medicare levy of 1.5%.

Case study

Susie, aged 50, earns a salary of $100,000 pa and, on top of this, her employer pays 9% Superannuation Guarantee contributions. She has a home loan of $120,000 and the interest rate is currently 7% pa. She is making the minimum principal and interest repayment of $1,393 per month over a 10 year term.

She wants to save more for retirement, but currently doesn't have any surplus cashflow to do this. After speaking to a financial adviser, she:

- switches to an interest-only home loan, which reduces her repayments by $693 per month, and
- asks her employer to sacrifice $1,127 of her pre-tax salary into super each month.

In Susie's case, $1,127 per month is the pre-tax equivalent of $693 per month after allowing for the marginal tax rate of 38.5%[2] she pays on her salary if taken as cash.

	Per month
Principal and interest repayment	$1,393
Less interest-only repayment	($700[3])
Surplus cashflow created by refinancing	$693
Pre-tax amount salary sacrificed	$1,127

The next table shows the value this strategy could add in 10 years, after cashing out her super and repaying the debt of $120,000[4]. By using her cashflow more tax-effectively, Susie could accumulate an additional $50,338 in super for her retirement, despite paying more home loan interest.

	In 10 years
Value of salary sacrifice contributions (including earnings)	$167,704
Less amount withdrawn from super to repay home loan	($120,000)[4]
Net value of salary sacrifice contributions (including earnings)	$47,704

Assumptions: A 10 year comparison. The salary sacrifice super contributions earn a total return of 7.7% pa (split 3.3% income and 4.4% growth). Investment income is franked at 30%. All figures are after income tax of 15% in super, capital gains tax (including discounting), home loan interest and repayment of the home loan. These rates are assumed to remain constant over the investment period.

Tips and traps

- Most lending institutions offer interest-only home loans with a choice of fixed or variable interest rates. However, some may charge a fee to refinance your home loan.
- Salary sacrifice super contributions can't be accessed until you meet a condition of release (see FAQs on page 23).
- When using this strategy, you should ensure your employer's super contributions (including Superannuation Guarantee and salary sacrifice) and certain other amounts don't exceed the cap that applies to all concessional super contributions – see FAQs on page 21.
- If you have surplus cashflow before you refinance to an interest-only loan, you could use this money to make additional principal repayments, or contribute an equivalent pre-tax amount into super via salary sacrifice. To find out the best option for you, seek financial advice.
- There is a risk the Government may restrict lump sum withdrawals from a super fund. This could limit your ability to pay off the loan unless you have other savings.
- You may need to pay lump sum tax if you withdraw money from a super fund prior to age 60 – see FAQs on page 24.

3 This assumes the interest rate payable on the interest-only loan is also 7%.

4 Susie pays no lump sum tax when she cashes out her super in 10 years, as she will be aged 60.

Strategy 3
Grow your super without reducing your income

If you're aged 55 or over, you may want to sacrifice some of your pre-tax salary into a super fund and use a transition to retirement pension to replace your reduced salary.

What are the benefits?

By using this strategy, you could:

- take advantage of a tax-effective income stream investment while you're still working, and
- build a bigger retirement nest egg without reducing your current income.

How does the strategy work?

This strategy involves:

- arranging with your employer to sacrifice part of your pre-tax salary directly into a super fund (see Strategy 1)
- investing some of your existing preserved or restricted non-preserved super in a transition to retirement pension (TRP), and
- using the regular payments from the TRP to replace the income you sacrifice into super – see FAQs on page 25.

By taking these steps, it's possible to accumulate more money for your retirement, due to a range of potential benefits. For example:

- salary sacrifice super contributions are generally taxed at up to 15%[2], rather than marginal rates of up to 46.5%[1]
- earnings in a TRP are tax-free, whereas earnings in a super fund are generally taxed at a maximum rate of 15%, and
- taxable income payments from the TRP will attract a 15% pension offset[3] between ages 55 and 59. Also, when you reach age 60, the payments you receive from the TRP are completely tax-free[3] and you don't have to include these amounts in your annual tax return (which could reduce the tax payable on your non-super investments).

While the magnitude of the tax savings will depend on your particular circumstances, combining salary sacrifice with a TRP could be a powerful pre-retirement strategy.

To find out whether this strategy suits your needs and circumstances, you should speak to a financial or tax adviser.

Note: This strategy could also be used if you're self-employed (see Glossary). However, rather than making salary sacrifice contributions, you need to make personal deductible super contributions.

1 Includes Medicare levy of 1.5%.

2 The Government announced in the 2012 Federal Budget that if an individual earns $300,000 or more, they will pay an additional 15% tax on concessional super contributions (see Glossary on page 26). At the time of printing this guide this measure had not been legislated.

3 Assumes the TRP is commenced from a taxed super fund (see Glossary).

Case study

Craig, aged 55, earns a salary of $90,000 pa and, on top of this, his employer pays 9% Superannuation Guarantee (SG) contributions. He wants to ensure he'll have enough money to retire comfortably in 10 years but, in the meantime, would like to maintain his after-tax income, which is currently $67,403 pa.

To help him achieve his goals, Craig's financial adviser recommends he:

- use his existing super balance of $300,000 to start a TRP
- elect to receive the income from the TRP of $13,586 in the first year, and
- sacrifice $16,900 into his super fund in the first year.

In year one	Before strategy	After strategy
Pre-tax salary	$90,000	$73,100
TRP income	Nil	$13,586
Total pre-tax income	$90,000	$86,686
Less tax payable	($22,597)	$19,283
After-tax income	$67,403	$67,403
SG contributions	$8,100	$8,100
Salary sacrifice contributions	Nil	$16,900

Once the strategy is established, Craig's adviser makes a number of ongoing recommendations, including that he periodically adjust:

- the amount he contributes into super (so he stays within the concessional contribution cap[4]), and
- the amount he draws from the TRP (so he can continue to achieve his after-tax income goal each year).

Below we show the value this strategy could add over various time periods. For example, if Craig uses this strategy for the next 10 years, he could increase his retirement savings by a further $94,265 without compromising his current living standards.

After year	Value of investments		Value added by strategy
	Before strategy (super only)	After strategy (super and TRP)	
1	$329,784	$334,795	$5,011
5	$476,774	$501,423	$24,649
10	$742,532	$836,797	$94,265

4 The concessional contribution cap applies to all employer super contributions (including SG and salary sacrifice), personal deductible super contributions and certain other amounts. In 2012/13 the cap is $25,000 (see FAQs on page 21).

Tips and traps

- When using this strategy, you need to consider the following:
  - To replace salary sacrifice contributions, you need to invest a sufficient amount of super in a TRP.
  - A minimum and maximum income limit apply to a TRP and lump sum withdrawals can only be made in certain circumstances (see FAQs on page 25).
  - If your SG contributions are based on your reduced salary, this strategy could erode your wealth.
- A TRP could also be used to top up your salary when reducing your working hours.

Assumptions: Craig's super balance of $300,000 consists entirely of the taxable component. He continues to receive 9% SG contributions based on his package of $90,000 pa, even after he makes salary sacrifice super contributions. He commenced the strategy on 1 July 2012. Both the super and TRP investment earn a total pre-tax return of 8% pa (split 3.5% income and 4.5% growth). Investment income is franked at 30%. Salary is indexed at 3% pa. From age 60, Craig's adviser also recommends he commute and repurchase the TRP each year and invest any surplus income in super as a non-concessional contribution. All values are after CGT (including discounting).

Strategy 4
Invest non-super money in super

If you hold an investment in your own name (outside super), you may want to cash it out and use the money to make a personal after-tax super contribution.

What are the benefits?

By using this strategy, you could:

- reduce tax on investment earnings, and
- increase your retirement savings.

How does the strategy work?

When you invest outside super, earnings are generally taxed at your marginal rate of up to 46.5%[1] (see FAQs on page 23).

However, if you cash out the investment and make a personal after-tax contribution, investment earnings in a super fund are generally taxed at a maximum rate of 15%; a potential tax saving of up to 31.5%.

This strategy can be particularly powerful if your money is currently invested in a term deposit or other asset where you don't have to pay capital gains tax (CGT) on the withdrawal.

But even if you have to pay CGT when selling assets like shares, investment properties and managed funds, the lower tax rate on investment earnings could more than compensate for your CGT liability over the longer term.

When using this strategy, you should keep in mind there is a cap on the amount of personal after-tax and other non-concessional super contributions you can make.

This cap is $150,000[2] a year, or up to $450,000[2] in one year if you're under age 65 in that year and meet certain other conditions (see FAQs on page 20).

You should also be aware that super benefits cannot be accessed until you satisfy a condition of release (see FAQs on page 23).

To find out whether you could benefit from investing non-super money in super, you should speak to a financial or tax adviser.

Note: The results from this strategy will depend on a range of factors such as your marginal tax rate, any CGT payable on the sale of your non-super investment, your timeframe and the investment returns.

1 Includes a Medicare levy of 1.5%.

2 These figures apply in 2012/13 and 2013/14 financial years.

Case study

Kate, aged 42, earns a salary of $90,000 pa from her employer. She has a share portfolio worth $50,000 (including a taxable capital gain of $10,000[3]). She plans to retire in 20 years and wants to use this money more effectively to grow her retirement savings.

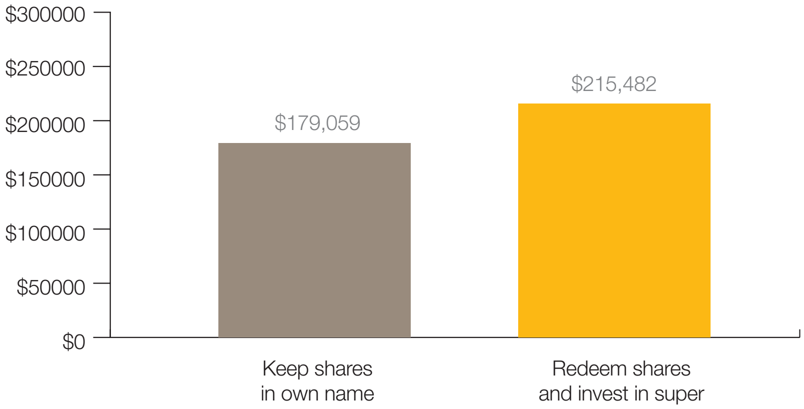
After speaking to a financial adviser, Kate:

- sells the shares
- keeps $3,850 to pay CGT
- makes a personal after-tax super contribution of $46,150, and
- invests in a broadly diversified share portfolio in her super fund.

Although CGT reduces the amount Kate can invest in super, her adviser estimates her investment will be worth an extra $36,423 when she retires in 20 years when compared to keeping the shares in her own name.

In this example, the lower tax rate on investment earnings in super will compensate for her CGT liability.

The benefits of investing in super over 20 years



Assumptions: Both the super and non-super investments earn a total pre-tax return of 7.7% pa (split 3.3% income and 4.4% growth). Investment income is franked at 75%. All investment income is reinvested. Both investments are cashed out at the end of the 20 year period. All figures are after income tax (at 15% in super and 38.5% outside super) and CGT (including discounting). These rates are assumed to remain constant over the investment period.

Note: No lump sum tax is payable based on current applicable tax rates on the super investment, as Kate will be aged 62 at the end of the investment period.

Tips and traps

- Making personal after-tax super contributions could enable you to qualify for a Government co-contribution of up to $500[4] (see Strategy 5).
- If you meet certain conditions, you may be able to offset the taxable capital gain on the sale of an asset by claiming a portion of your super contribution as a tax deduction (see Strategy 6).
- There are other ways to reduce CGT on the sale of an asset. These could include using capital losses, selling in a lower income year or selling the assets progressively so the gain is spread over more than one financial year.
- Getting non-super money into super could also enable you to receive unlimited tax-free benefits at age 60 or over.
- If you're a member of a self-managed super fund, or discretionary master trust, you may be able to transfer certain non-super investments (such as shares) into super as an *in specie* contribution (see Glossary). However, CGT and stamp duty may be payable.

3 This figure is after the 50% general CGT discount (that is available because Kate has owned the shares for more than 12 months) and assumes she has no capital losses to offset her taxable capital gain.

4 From 1 July 2012 the Government has proposed to reduce the current maximum Government co-contribution from $1,00 to $500. If legislated, the matching rate will reduce from $1 to $0.50 for income levels between $31,920 and $46,919. At the time of printing this guide this proposal had not been legislated.

Strategy 5
Top up your super with help from the Government

If you're a low to middle income earner, you may want to make personal after-tax super contributions.

What are the benefits?

By using this strategy, you could:

- qualify for a Government co-contribution of up to $500[1], and
- take advantage of the maximum tax rate of 15% that is payable on super fund earnings.

How does the strategy work?

If you earn less than $46,920[1] pa (of which at least 10% is from eligible employment or carrying on a business) and you make personal after-tax super contributions, the Government may also contribute into your super account.

This additional super contribution, which is known as a co-contribution[1], could make a significant difference to the value of your retirement savings over time.

To qualify for a co-contribution, you will need to meet a range of conditions (see FAQs on page 22), but as a general rule:

- the maximum co-contribution of $500 is only available if you contribute $500 and earn less than $31,920[2]
- a reduced amount may be received if you contribute less than $500 and/or earn between $31,920[2] pa and $46,919[2], and
- you will not be eligible if you earn $46,920[2] or more.

The Australian Taxation Office (ATO) will determine whether you qualify based on the data received from your super fund (usually by 31 October each year for the preceding financial year) and the information contained in your tax return.

As a result, there can be a time lag between when you make your personal after-tax super contribution and when the Government pays the co-contribution.

If you're eligible for the co-contribution, you can nominate which fund you would like to receive the payment.

Alternatively, if you don't make a nomination and you have more than one account, the ATO will pay the money into one of your funds based on set criteria.

To find out whether you could benefit from this strategy, you should speak to a financial or tax adviser.

Note: Some funds or superannuation interests may not be able to receive co-contributions. This includes unfunded public sector schemes, defined benefit interests, traditional policies (such as endowment or whole of life) and insurance only superannuation interests.

1 From 1 July 2012 the Government has proposed to reduce the current maximum Government co-contribution from $1,000 to $500. If legislated, the matching rate will reduce from $1 to $0.50 for income levels between $31,920 and $46,919. At the time of printing this guide, this proposal had not been legislated.

2 Includes assessable income, less business deductions, reportable fringe benefits and reportable employer super contributions. Other conditions apply.

Case study

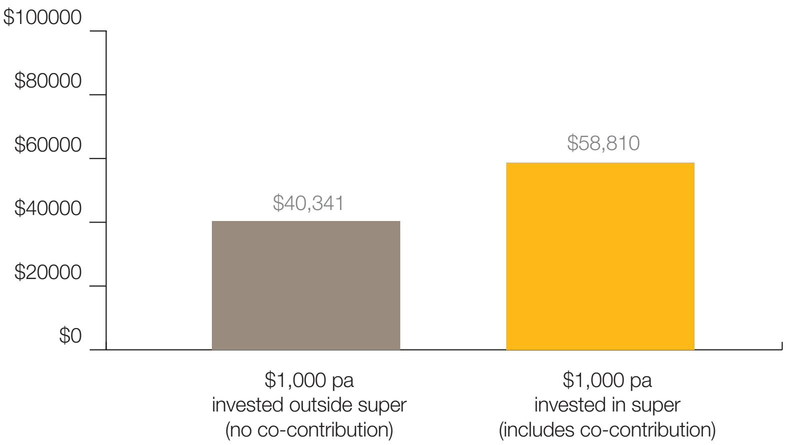
Ryan, aged 40, is employed and earns $37,000[2] pa. He wants to build his retirement savings and can afford to invest $1,000 a year.

After speaking to a financial adviser, he decides to use the $1,000 to make a personal after-tax super contribution. By using this strategy, he'll qualify for a co-contribution of $331 (in 2012/13) and the investment earnings will be taxed at a maximum rate of 15%.

Conversely, if he invests the money outside super each year (in a managed fund, for example), he will not qualify for a co-contribution[1] and the earnings will be taxable at his marginal rate of 34%[3].

The graph below compares these two approaches if maintained over 20 years until Ryan is age 60. The combined effect of receiving co-contributions and the lower tax rate on investment earnings means Ryan could have an extra $18,469 to fund his retirement.

The benefits of co-contributions over 20 years[5]



Assumptions: A 20 year comparison based on an after-tax investment of $1,000 pa which includes the proposed reduction to the Federal Government's co-contribution effective from 1 July 2012[4]. Total return is 7.7% pa (split 3.3% income and 4.4% growth). Investment income is franked at 30%. All figures are after income tax (at 15% in super and 34% outside super) and capital gains tax (including discounting). These rates are assumed to remain constant over the investment period.

Note: No lumps sum tax is payable based on current applicable tax rates on his super benefit, as Ryan will be aged 60 at the end of the investment period..

Tips and traps

- Personal after-tax super contributions (as well as any associated co-contributions) can't be accessed until you meet a condition of release – see FAQs on page 23.
- Make sure you supply your super fund with your Tax File Number so your fund can accept your personal after-tax contributions and the ATO can correctly determine your co-contribution entitlement.
- If you're a higher income earner and you're currently making salary sacrifice contributions (see Strategy 1), your lower income spouse (if applicable) may also want to make a personal after-tax super contribution so they can qualify for a co-contribution. If you have insufficient cashflow to do both, there may be an advantage if you forgo a portion of your salary sacrifice contributions and have your spouse invest the after-tax proceeds into their super account instead.
- A co-contribution could be used to purchase insurance through a super fund (see Strategy 7). Alternatively, insurance purchased through a super fund may attract a co-contribution that could be used to top up your super investments or purchase even more insurance cover.
- You could also consider making an after-tax contribution of $3,000 into a super fund on behalf of your spouse. If they earn less than $13,800 pa, this may entitle you to a spouse offset of up to $540 (see FAQs on page 22).

3 Includes Medicare levy of 1.5%.

4 The Government has introduced the Low Income Superannuation Contribution (LISC) effective from 1 July 2012. The LISC will effectively restore the 15% contributions tax charged to concessional contributions for eligible individuals with an Adjustable Taxable Income of up to $37,000, up to a maximum payment of $500 pa. This payment can be paid in addition to the Federal Government co-contribution.

5 Does not include the Low Income Superannuation Contribution (LISC).

Strategy 6
Contribute to super and offset capital gains tax

When getting non-super money into super, you may want to claim a portion of your contribution as a tax deduction.

What are the benefits?

By using this strategy, you could:

- reduce, or eliminate, capital gains tax (CGT) on the sale of the non-super investment, and
- increase your retirement savings.

How does the strategy work?

Cashing out a non-super investment, paying CGT and using the remaining amount to make a personal after-tax super contribution[1] can be a powerful strategy.

This is because the low tax rate payable on investment earnings in super could more than compensate for your CGT liability over the longer term (see Strategy 4).

However, if you meet certain conditions, you may want to claim a portion of your super contribution as a tax deduction[2]. By doing this, you can use the tax deduction to offset some (or all) of your taxable capital gain and reduce (or eliminate) your CGT liability.

While the tax-deductible portion of your super contribution will be taxed at 15% in the fund, this strategy could enable you to make a larger super investment and retire with even more money to meet your living expenses, as the case study reveals.

To use this strategy, you must be eligible to make super contributions (see FAQs on page 20) and, in the same financial year, you generally need to receive less than 10% of your income[3] from eligible employment. As a result, this strategy is usually only available if you're self-employed or you're under age 65 and not employed.

To find out if you're eligible to use this strategy and whether you could benefit, you should speak to a financial or tax adviser.

1 Personal after-tax contributions will count, along with certain other amounts, towards your non-concessional contribution cap. This cap is $150,000 a year (or up to $450,000 in one year if you're under age 65 in that year and meet certain other conditions) – see FAQs on page 20.

2 Contributions claimed as a tax deduction will count, along with certain other amounts, towards your concessional contribution cap. For 2012/13, the concessional contribution cap is $25,000.

3 Includes assessable income, less business deductions, reportable fringe benefits and reportable employer super contributions.

Case study

Lisa, aged 42, is self-employed. Like Kate from Strategy 4, she earns a taxable income of $90,000 pa and has a share portfolio worth $50,000 (including a taxable capital gain of $10,000[4]). She wants to sell her shares and invest the money in super so she can boost her retirement savings.

She could use the same approach as Kate and make a personal after-tax super contribution of $46,300 (after keeping $3,700 to pay CGT on the sale of the shares). However, because she's self-employed, her financial adviser explains she can claim her personal super contributions as a tax deduction[2].

Her adviser therefore suggests that a better approach would be to invest the full sale proceeds of $50,000 in super and claim $10,000 as a tax deduction. By doing this, she can use the deduction to offset her taxable capital gain of $10,000 and eliminate her CGT liability of $3,700.

While the deductible contribution will be taxed at 15% in the super fund, this strategy will enable her to invest an additional $2,200 in super for her retirement.

	Without claiming deduction	With claiming deduction
Value of shares prior to selling	$50,000	$50,000
Less CGT payable on sale	($3,700)	Nil
Less tax on deductible super contribution	Nil	($1,500)
Net super investment	$46,300	$48,500
Additional super investment		**$2,200**

The next table compares these two options when she retires in 20 years. By claiming a portion of her super contribution as a tax deduction, and making a larger initial investment in super, Lisa could have an extra $10,273 to meet her living expenses when she is no longer working.

	Without claiming deduction	With claiming deduction
Value of investment in 20 years	$261,182	$226,455

Note: No lump sum tax is payable based on current applicable tax rates on the super investment, as Lisa will be aged 62 at the end of the investment period.

Tips and traps

- This strategy could also be used when selling an investment property, managed fund or other investment where CGT is payable by you.
- To reduce the tax payable on other income sources (eg from self-employment) you may want to claim more of your super contribution as a tax deduction (subject to the cap on concessional super contributions – see FAQs on page 21).
- While personal after-tax contributions will be received tax-free by all your eligible beneficiaries in the event of your death, personal deductible contributions will form part of the taxable amount and are generally taxed at 16.5% if received by non-dependants for tax purposes (eg financially independent adult children).
- Rather than selling an asset and transferring the proceeds into super, it may be possible to contribute certain qualifying assets into super in specie (see Glossary). While the transfer may still result in CGT and stamp duty being payable, the CGT may be offset by claiming a portion of the *in specie* contribution as a tax deduction.

Assumptions: Lisa's super is invested in a broadly diversified share portfolio, which earns a total pre-tax return of 7.7% pa (split 3.3% income and 4.4% growth). Investment income is franked at 75%. All investment income is reinvested. Both investments are cashed out at the end of the 20 year period. All figures are after income tax and CGT (including discounting). These rates are assumed to remain constant over the investment period.

4 This figure is after the 50% general CGT discount (that is available because Lisa has owned the shares for more than 12 months) and assumes she has no capital losses to offset her taxable capital gain.

Strategy 7 Purchase Life and TPD insurance tax-effectively

If you want to protect yourself and your family tax-effectively, you may want to take out Life and Total and Permanent Disability (TPD) insurance in a super fund rather than outside super.

What are the benefits?

By using this strategy, you could:

- reduce the net cost of the premium, and
- enable certain beneficiaries to receive the death or TPD benefit as a tax-effective income stream.

How does the strategy work?

If you buy Life and TPD insurance in a super fund, you may be able to take advantage of a range of upfront tax concessions generally not available when insuring outside super.
For example:

- **If you're eligible to make salary sacrifice contributions** (see Strategy 1), you may be able to purchase insurance through a super fund with pre-tax dollars (see case study).
- **If you earn less than $46,920[1] pa and you make personal after-tax super contributions**, you may be eligible to receive a Government co-contribution[2] (see Strategy 5) that could help you cover the cost of future insurance premiums.
- **If you make super contributions on behalf of a spouse on a low income**, you may be able to claim a tax offset of up to $540 pa (see FAQs on page 22) that could be put towards insurance premiums for you or your spouse.
- **If you earn less than 10% of your income[3] from eligible employment** (eg you're self-employed or not employed), you can generally claim your super contributions as a tax deduction – regardless of whether they are used in the fund to purchase investments or insurance.

These tax concessions can make it cheaper to insure through a super fund. This will usually also be the case if the sum insured is increased to make a provision for any lump sum tax that is payable on TPD and death benefits in certain circumstances (see FAQs on page 24).

Another benefit of insuring in super is that you (or certain eligible dependants) have the option to receive the TPD (or death) benefit as an income stream, rather than a lump sum payment.

Where this is done:

- because lump sum tax won't be payable when the income stream is commenced, there may be no need to increase the sum insured depending on the circumstances, and
- the income payments will be concessionally taxed (see FAQs on page 25).

To find out whether you could benefit from taking out Life and TPD insurance in super, you should speak to a financial or tax adviser.

1 Includes assessable income, less business deductions, reportable fringe benefits and reportable employer super contributions (of which at least 10% must be from eligible employment or carrying on a business). Other conditions apply.

2 From 1 July 2012 the Government has proposed to reduce the current maximum Government co-contribution from $1,000 to $500. If legislated, the matching rate will reduce from $1 to $0.50 for income levels between $31,920 and $46,919. At the time of printing this guide, this proposal had not been legislated.

3 Includes assessable income, less business deductions reportable fringe benefits and reportable employer super contributions. Other conditions apply.

Case study

Jack, aged 45, works full-time and earns a salary of $100,000 pa. He is married to Claire, aged 41, who is looking after their young children.

After assessing their needs and situation, their financial adviser recommends Jack take out $700,000 in Life insurance so Claire can pay off their debts and replace his income if he dies. The premium for this insurance is $805 in year one.

Their adviser also explains it will be more cost-effective if he takes out the insurance in super. This is because if he arranges with his employer to sacrifice $805 of his salary into his super fund, he'll be able to pay the premiums with pre-tax dollars[3].

Conversely, if he purchases the cover outside super:

- he'll need to pay the premium of $805 from his after-tax salary, and
- after taking into account his marginal rate of 38.5%[4], the pre-tax cost would be $1,308 (ie $1,308 less tax at 38.5% [$504] equals $805).

By insuring in super he could make a pre-tax saving of $504 on the first year's premium and an after-tax saving of $310, after taking into account his marginal rate of 38.5%.

In year one	Insurance purchased outside super (with after-tax salary)	Insurance purchased within super (via salary sacrifice)
Premium	$805	$805
Plus tax payable on salary at 38.5%	$504	N/A
Pre-tax salary received or sacrificed	$1,308	$805
Pre-tax saving	N/A	$504
After-tax saving	N/A	**$310**

Let's now assume he continues this cover for 20 years and the amount of insurance increases by 5% pa, to ensure the benefit payable keeps pace with inflation. Over this period, the after-tax savings could amount to $35,489 (in today's dollars). So insuring in super could be significantly cheaper over a long time period.

Insurance assumptions: Age 45, non-smoker, $700,000 in Life Cover increased by CPI each year. Based on MLC Limited's standard ordinary premium rates as at 27 June 2012 and includes the policy fee.

Tips and traps

- Insurance cover purchased through a super fund is owned by the fund trustee, who is responsible for paying benefits subject to relevant legislation and the fund rules. When insuring in super, you should be clear on the powers and obligations of the relevant trustee when paying benefits.
- When making contributions to fund insurance premiums in a super fund, you should take into account the cap on concessional and non-concessional contributions (see FAQs on pages 20 and 21).
- When insuring in super, you can usually arrange to have the premiums deducted from your account balance without making additional contributions to cover the cost. This can enable you to get the cover you need without reducing your cashflow.
- While Critical Illness insurance is generally not available within super, it's possible to purchase Income Protection (or Salary Continuance) insurance in super with a choice of benefit payment periods up to age 65.

3 Since 1 July 2007, premiums for certain TPD insurance policy are only partially deductible to the fund trustee (eg own occupation). Because super funds generally receive a tax deduction for death and disability premiums, no tax is deducted from the salary sacrifice super contributions (see FAQ on page 22). The Government announced in the 2012 Federal Budget that if an individual earns $300,000 or more, they will pay an additional 15% tax on concessional super contributions. If this announcement is legislated, affected individuals will incure an additional 15% tax on their concessional contributions. A concessional contribution cap of $25,000 applies in 2012/13. If contributions exceed this cap, an excess contribution tax of 31.5% is payable.

4 Includes Medicare levy of 1.5%

Strategy 8
Convert business capital into tax-free retirement benefits

If you're aged 55 or over and selling your small business to retire, you may want to take advantage of the CGT retirement exemption.

What are the benefits?

By using this strategy, you could:

- reduce, or eliminate, capital gains tax (CGT) on the sale of your business, and
- get more money into the concessionally taxed super system.

How does the strategy work?

To use this strategy, you need to sell active business assets[1] that have been held for less than 15 years and meet certain other conditions.

If eligible (see FAQs on page 21), you then need to claim the CGT retirement exemption no later than when you lodge your income tax return for the year in which the business is sold.

This exemption enables you to disregard up to $500,000 in capital gains and keep more of the sale proceeds to meet your living expenses in retirement.

Furthermore, if you invest the CGT retirement exemption amount in super and elect to have this amount counted towards your CGT cap, you could potentially get more of the sale proceeds into super without incurring a penalty.

This is because super contributions made under the CGT cap are specifically excluded from the non-concessional contribution cap of $150,000[2] a year, or up to $450,000[2] in one year if you're under age 65 in that year and meet certain other conditions (see FAQs on page 20).

To find out whether you're eligible to claim the CGT retirement exemption and how you could use it to your advantage, you should speak to a financial or tax adviser.

Note: If you held the active business assets for 15 years or more, you may be eligible to claim the 15 year CGT exemption (see FAQs on page 21). This exemption could enable you to disregard 100% of the capital gain and take advantage of a higher CGT cap of $1,255,000[2].

1 Active business assets are assets that are held or used in the course of carrying on your own business or a business of someone else that is connected with you. Generally, this might include land and buildings and in limited circumstances, shares in the company.

2 This figure applies in 2012/13 and may be indexed in future years.

Case study

Jane, aged 64, recently sold a business she has owned for the last 10 years for $800,000 and made a capital gain of $700,000.

She wants to limit the amount of CGT she has to pay on the sale proceeds and, if possible, would like to get all the money into the concessionally taxed super system to fund her retirement.

Her financial adviser recommends she claim the 50% general CGT discount[3] and a CGT retirement exemption of $350,000. This will enable her to offset her taxable capital gain and receive the full sale proceeds of $800,000 without paying any tax.

Sale proceeds received	$800,000
Less cost base	($100,000)
Nominal capital gain	$700,000
Less 50% general CGT discount[3]	($350,000)
Net gain after discount	$350,000
Less CGT retirement exemption claimed	($350,000)
Net taxable gain	**Nil**

Her adviser also recommends she invest the CGT exemption amount of $350,000 in super and notify her fund that she wants this amount to be counted towards her CGT cap.

Because the amount claimed under the CGT cap is excluded from the non-concessional contribution cap (and she is under age 65), she is then able to invest a further $450,000 in super as a personal after-tax contribution.

By using this strategy, she is able to get the full sale proceeds of $800,000 into super without exceeding the contribution caps. Sue is also able to use this amount to commence an income stream investment where she can receive unlimited tax-free payments to meet her living expenses.

Tips and traps

- If you're under age 55, you must invest the CGT retirement exemption amount in super to qualify for the CGT concession. Also, you won't be able to access the money (as a lump sum or income stream) until you meet a condition of release (see FAQs on page 23).
- If your capital gain is large, you may also want to claim the 50% active assets exemption (see FAQs on page 21). If you're eligible, this exemption could also enable you to reduce a taxable capital gain on the sale of active business assets. However, the amount claimed cannot be counted towards the CGT cap when invested in super.
- If you want the contribution treated as a CGT cap election contribution, you must provide your fund with a **CGT cap election** form in the approved format at the time or prior to making the contribution.
- If you use your super to start an income stream investment:
  - no tax will be payable on earnings in the fund
  - the taxable income payments will attract a 15% tax offset between ages 55 and 59[4], and
  - all income payments received at age 60 or over will generally be tax-free[4].

3 If an asset has been held for more than 12 months, individual small business owners (eg sole traders and partners) must utilise the 50% general CGT discount before electing to apply any of the other small business CGT concessions except for the 15 year exemption (see FAQs on page 21).

4 Assumes payments from a taxed super fund (see glossary).

Frequently asked questions

Who can contribute to super?

Subject to the fund rules, contributions to your super account in 2012/13 are allowed in the circumstances outlined in the following table:

Your age	Allowable contributions
< 65	• Personal contributions, mandatory employer contributions, voluntary employer contributions (including salary sacrifice) and spouse contributions.
65 – 69	• Personal contributions, voluntary employer contributions (including salary sacrifice) and spouse contributions, provided you have worked at least 40 hours over a consecutive 30 day period during the financial year, prior to making the contribution. • Mandatory employer contributions.
70 – 74	• Personal contributions and voluntary employer contributions (including salary sacrifice), provided you have worked at least 40 hours over a consecutive 30 day period during the financial year, prior to making the contribution. • Mandatory employer contributions.
75 +	• Mandatory employer contributions.

An existing super benefit can be rolled over at any time. You will also need to satisfy these conditions if you want to roll over an employment termination payment (if eligible) or invest the proceeds from the sale of a business in super.

How much can you contribute to super?

Assuming you're eligible to make contributions, certain caps apply. These include the non-concessional contribution cap, the concessional contribution cap and the CGT cap. Each of these caps is outlined below.

What is the non-concessional contribution (NCC) cap?

Non-concessional contribution cap – A cap that applies to certain super contributions. These include, but are not limited to, personal after-tax contributions made and spouse contributions received. In 2012/13, the cap is $150,000. However, if you are under age 65, it maybe possible to contribute up to $450,000 in 2012/13, provided your total non-concessional contributions in that financial year, the last two proceeding years, and the following two financial years, do not exceed $450,000. If the cap is exceeded, excess contributions will be taxed at a penalty rate of 46.5%.

Note: Particular contributions are excluded from this cap. The main ones include:

- certain proceeds from the sale of small business assets up to a CGT cap of $1,255,000[1] in 2012/13 (see page 21), and
- settlements received for personal injuries relating to permanent disablement.

1 This figure applies from 1 July 2012 and may be indexed in future years.

What is the concessional contribution (CC) cap?

The CC cap applies to certain super contributions that include, but are not limited to:

- all contributions from an employer (including salary sacrifice) and/or,
- personal contributions claimed as a tax deduction.

In 2012/13 the cap is $25,000[2]. If the cap is exceeded, excess contributions will be payable at a rate of 31.5%, in addition to the contributions tax of 15%. Where penalty tax is payable, you will be able to request your super fund to release sufficient benefits, or you can pay the tax out of your non-super money.

The Government will provide eligible individuals who breach the concessional contributions cap of up to $10,000 or less with a one-off option to request that these excess contributions be refunded to them and taxed at their marginal tax rate. This new measure will only apply to first time breaches effective from 1 July 2011 and onwards.

What is the CGT cap?

The CGT cap is a lifetime limit and is currently up to $1,255,000[3]. This cap is available to eligible small business owners when making personal after-tax super contributions using:

- capital proceeds from the disposal of assets that qualify for the 15 year CGT exemption, even if the disposal didn't result in a capital gain or loss, the asset was a pre-CGT asset or the disposal occurred before the 15-year holding period had elapsed due to permanent incapacity, or
- capital gains from the disposal of assets that qualify for the CGT retirement exemption up to a limit of $500,000 per person.

What CGT concessions are available to small business owners?

Small business owners may have a number of CGT concessions available to them when selling their interest(s) in a business. Some can also take advantage of more than one CGT concession.

To qualify for the concessions, a number of basic conditions need to be met, as well as some conditions that are specific to each of the concessions.

To meet the **basic eligibility conditions:**

- The business must have a turnover of $2 million or less, or the net value of the owner's existing CGT assets (subject to certain exclusions) must not exceed $6 million (the Net Asset Value test). If the owners have connected or affiliated entities, then the annual turnover or net value of the CGT assets of those entities must be aggregated.
- The assets disposed of must be active assets. These are tangible and intangible assets used, or held ready for use, in the course of carrying on a business (eg land, buildings and goodwill). Shares in Australian resident companies and interests in Australian resident trusts are active assets where at least 80% of the assets owned by these entities are active assets.
- If the asset is a share in a widely held company or an interest in a trust, there must be either a significant individual who is entitled to at least 20% of distributed income or capital from the entity, or the 90% small business participation percentage test needs to be met.

The concessions that may be available (and the **specific eligibility conditions** that apply to these concessions) include the:

- **15 year CGT exemption** – This is a 100% CGT exemption available to small business owners on the disposal of active assets held for 15 years or more. The assets must have been disposed of for the purpose of retirement and the small business owner must be at least 55 years of age or permanently incapacitated.
- **50% CGT active assets exemption** – This is a 50% exemption available to small business owners on the disposal of active assets.
- **CGT retirement exemption** – This is available to small business owners up to a maximum lifetime limit of $500,000. If the small business owner is less than 55 years of age, they must invest the exempt amount in a super fund. However, if the small business owner is 55 or over, they can take the proceeds as cash, invest in super or start an income stream investment.

In addition to the small business concessions, the **50% general CGT discount** is available to individuals and beneficiaries of trusts on all assets held for more than 12 months. This exemption must be utilised before any other concession is claimed, except for the 15 year exemption.

2 This cap applies in 2012/13 and 2013/14 financial years and may be indexed in future financial years.

3 This figure applies from 1 July 2012 and will be indexed in future years.

Frequently asked questions

How is your super taxed?

Tax on contributions

Employer contributions (including salary sacrifice) and personal deductible contributions form part of the super fund's assessable income and are generally taxed at a maximum rate of 15%.

Tax on investment earnings

The investment earnings of a complying super fund are generally taxed at a maximum rate of 15%. The tax rate payable can be reduced with the use of dividend imputation credits and the CGT discount provisions. The one-third CGT discount means the effective tax rate on realised capital gains is only 10%, where the investments have been held for at least 12 months.

What tax concessions are available when contributing to super?

Tax deduction on super contributions

If you earn less than 10% of your income[4] from eligible employment (eg you're self-employed or not employed), you may be eligible to claim a full tax deduction for your super contributions.

However, you should keep in mind that any contributions you claim as a tax deduction will count, along with certain other amounts, towards your concessional contribution cap (see page 21).

Government co-contributions[5]

You may be entitled to a Government co-contribution of up to $500 in 2012/13 if:

- your income[4] is less than $46,920
- at least 10% of your income[4] is attributable to eligible employment or carrying on a business
- you make personal after-tax contributions to your super account[6]
- you lodge an income tax return
- you're under age 71 at the end of the financial year that the personal super contribution is made, and
- you're not a temporary resident.

The table below outlines the co-contribution you may be entitled to receive if you make personal after-tax super contributions in 2012/13.

Income[4]	Personal after-tax contribution[7]	Co-contribution available
$31,920 or less	Any amount	100% of your personal contributions (subject to a maximum of $1,000)
$31,921 – $46,919	$0 – $1,000	An amount equal to the lesser of: • personal contribution, or • $500 – [0.03333 x (income[4] – $31,920)]
$31,921 – $46,919	$1,000 or more	$500 – [0.03333 x (income[4] – $31,920)]
$46,920 or more	Any amount	Nil

Spouse contribution tax offset

You may be able to claim a tax offset of up to $540 pa when you make after-tax super contributions on behalf of your spouse. The amount of the offset will depend on your spouse's income[4] as follows:

Spouse's income[4]	Contribution amount[7]	You can claim an offset of:
$10,800 or less	$0 – $3,000	18% of contributions
$10,800 or less	$3,000 or more	$540 maximum
$10,801 – $13,799	Any amount	An amount equal to the lesser of: • spouse contribution x 18%, or • [$3,000 – (spouse's income[4] – $10,800)] x 18%
$13,800 or more	Any amount	Nil

Note: A spouse under the relevant legislation includes a married or de facto spouse, but does not include partners (married or de facto) who are living separately and apart on a permanent basis. The receiving spouse must also be under age 65 or, if between 65 and 70, must have worked at least 40 hours over 30 consecutive days during the financial year.

4 Includes assessable income, less business deductions, reportable fringe benefits and reportable employer super contributions.

5 From 1 July 2012 the Government has proposed to reduce the current maximum co-contribution from $1,000 to $500. If legislated, the matching rate will reduce from $1 to $0.50 for income levels between $31,920 and $46,919. At the time of printing this guide, this proposal had not been legislated.

6 Salary sacrifice amounts don't qualify as personal contributions.

7 The personal after-tax contributions (but not Government co-contributions) will count towards the non-concessional contribution cap outlined on page 20.

8 The after-tax super contributions received by your spouse will count towards their non-concessional contribution cap (see page 20).

What are the current income tax rates?

Marginal tax rates on income

The following table summarises the tax rates that apply to residents in 2012/13.

Taxable income range	Tax payable
$0 – $18,200	Nil
$18,201 – $37,000	19%[9] on amount over $6,000
$37,001 – $80,000	$3,572 + 32.5%[9] on amount over $37,000
$80,001 – $180,000	$17,547 + 37%[9] on amount over $80,000
Over $180,000	$54,547 + 45%[9] on amount over $180,000

Medicare levy

A levy of 1.5% is payable on the whole of your taxable income on top of normal marginal tax rates. In 2012/13, if you earn less than $20,542 pa ($32,743 pa combined for couples), you're exempt from the levy. If you earn slightly more than these limits, the levy is phased in.

An additional surcharge between 1%-1.5% applies to singles with an income in 2012/13 over $84,000 pa (or couples with a combined income of $168,000 pa) who don't have private health insurance. If applicable, this Medicare levy surcharge will be payable on top of the base Medicare levy of 1.5%.

When can you access your super?

Your super can generally be accessed when you meet one of the following **conditions of release**:

- retiring after reaching your preservation age (55 to 60 – see next column)
- leaving your employer after age 60
- reaching age 65
- permanent incapacity (specific requirements apply)
- a terminal medical condition where two medical practitioners (one a specialist) certify that your condition is likely to result in death within 12 months
- death
- financial hardship (the amount is restricted and you must have received Federal Government income support for six months consecutively or nine months cumulatively if aged 55 or over and not gainfully employed at the date of application)
- compassionate grounds (must be approved by the Department of Human Services)
- upon permanent departure from Australia for certain temporary residents.
- leaving the service of your employer who has also contributed into your super fund; restricted non-preserved benefits only.

A transition to retirement pension (see Glossary) may also be commenced with preserved and restricted non-preserved benefits if you have reached your preservation age.

Note: You can access unrestricted non-preserved benefits at any time.

What are the preservation ages?

The age at which you can withdraw your super depends on when you were born. The table below shows the current preservation ages.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
1 July 1964 or after	60

How long can I keep my benefits in super?

You can keep your benefits in the accumulation phase of a super fund for as long as you like.

9 These rates don't include the Medicare levy.

Frequently asked questions

What tax is payable when a super benefit is received as a lump sum?

The table below summarises the tax payable in 2012/13 on a lump sum benefit paid from a taxed super fund, including in the event of total and permanent disability but not death (see next column).

Component	Tax payable
Tax free	Nil
Taxable: • If under age 55 • If aged 55 to 59 • If aged 60+	 • 21.5%[10] • First $175,000[11] is tax-free and rest is taxed at 16.5%[10] • Nil[12]

Note: Where you have a tax free and a taxable component, each lump sum withdrawal will include both components in the same proportion as these components make up the total interest immediately before the withdrawal.

If a super benefit (including insurance proceeds) is paid as a lump sum in the event of a fund member's death:

- unlimited tax-free amounts can be received by dependants for tax purposes[13], and
- the table below summarises the tax payable on the various components by non-dependants for tax purposes.

Component	Tax payable by non-dependants
Tax free	Nil
Taxable: • Taxed element • Untaxed element	 • 16.5%[10] • 31.5%[10]

What is the Mature Age Worker tax offset?

This offset (with a maximum of $500) is available if you're born before 1 July 1957 and earn taxable income from personal exertion, including salary and wages, business income or personal services income. Taxable income from these sources also needs to be within the following limits in 2012/13:

Taxable income[14]	Offset available
$0 – $10,000	5% of taxable income[15]
$10,001 – $53,000	$500
$53,001 – $63,000	$500 – [0.05 x (taxable income[15] – $53,000)]
$63,001 or more	Nil

Example:

If you're 59 years old, with a taxable income from personal exertion of $57,000 pa, you may be entitled to a tax offset of $300 ie $500 less 5% of ($57,000 – $53,000) = $300.

10 Includes a Medicare levy of 1.5%.

11 This low rate cap applies to the total of all taxable components (and post-June 1983 components prior to 1 July 2007) that are taken as cash at age 55 and over. This rate applies to 2012/13 financial year and may be indexed in future years.

12 Lump sum payments received at age 60 or over don't need to be included in your tax return.

13 Includes a spouse (legally married or de facto including same sex), a former spouse, minor children, a financial dependant and a person in an interdependency relationship with the deceased.

14 From 1 July 2012, this offset will be phased out for taxpayers born on or after 1 July 1957.

15 From personal exertion.

What are the benefits of starting an income stream investment with super money?

Using your super to start an income stream investment can provide benefits that aren't available if you take your super as a lump sum. These include:

- avoiding lump sum tax
- investment earnings in the fund are tax-free
- a 15% pension offset on the taxable income payments received between ages 55 and 59 (which means it's possible to receive up to $49,752[16] pa tax-free in 2012/13 while you're in this age group)
- unlimited tax-free[17] payments from the income stream at age 60 or over, and you don't have to include these amounts in your annual tax return (which could reduce the tax payable on your non-super investments)
- a favourable social security treatment (which could make you eligible for, or increase your entitlement to, the Age Pension and associated benefits).

For further information on the benefits of income stream investments, see our **Smart strategies for maximising retirement income** brochure.

How are the income payments from a transition to retirement pension (TRP) determined?

The minimum income[18] that must be received each year from a TRP is calculated by multiplying the account balance at the start (and on 1 July each year) by the age-based percentage in the table below. The maximum amount of income you can receive from a TRP each year is 10% of the account balance, regardless of your age.

Age at start of income stream (and 1 July each year)	Minimum % of account balance that must be received each year[17]
Under 65	4%
65–74	5%
75–79	6%
80–84	7%
85–89	9%
90–94	11%
95 or more	14%

Note: An income payment may be deferred until the following financial year where a TRP is commenced between 1 June and 30 June. A pro-rata minimum payment is required if it's commenced before 1 June. The maximum income payment of 10% does not need to be pro-rated.

Example:

Peter turned 62 in June and on 1 July the account balance of his TRP was $150,000. Based on his age, the minimum income he must receive is 4%[18] of his account balance, or $6,000 (ie $150,000 x 4% = $6,000). The maximum income payment he could receive would be 10% of his account balance, or $15,000 (ie $150,000 x 10% = $15,000).

When can you access money invested in a transition to retirement pension?

In addition to the income limits outlined above, you can generally only take a cash lump sum (or purchase a different type of income stream investment) when you permanently retire, reach age 65 or meet another condition of release (see page 23). You can, however, transfer the money back to super at any time.

16 Does not include the Medicare levy and assumes no other income sources are received.

17 Assumes the income stream is commenced from a taxed super fund (see Glossary).

18 For the 2012/13 financial year, investors will only be required to draw down 75% of the minimum income amount.

Glossary

A

Account based pension – An account in which you can invest your super savings in exchange for a regular and flexible income.

Assessable income – Income, including capital gains, you receive before deductions.

C

Capital gains tax (CGT) – A tax on the growth in the value of assets or investments, payable when the gain is realised. If the assets have been held by an individual, trust or super fund for more than 12 months, the capital gain generally receives concessional treatment.

Complying super fund – A super fund that qualifies for concessional tax rates. A complying super fund must meet the requirements set down by law.

Concessional contribution cap – a cap that applies to certain super contributions. These include, but are not limited to:

- contributions from an employer (including salary sacrifice)
- personal contributions claimed as a tax deduction (where eligible), and/or

In 2012/13, this cap is $25,000 pa. If the cap is exceeded, excess contributions will be payable at a rate of 31.5%.

Condition of release – Circumstance upon which you can withdraw your super benefits (see FAQs on page 23).

D

Dependant for tax purposes – Those people eligible to receive unlimited tax-free lump sum payments from a super fund in the event of a fund member's death. Includes a spouse (legally married or de facto including same sex), a former spouse, minor children, a financial dependant and a person in an interdependency relationship with the deceased.

Discretionary master trust – A type of super fund that offers similar investment flexibility to a self-managed fund without the burden of having to be a trustee.

Disposal of asset – When an asset changes ownership, which can include means other than through sale (eg by gift). Relates to capital gains tax.

E

Eligible employment – Broadly, any work that classifies you as an employee for Superannuation Guarantee purposes.

Employment termination payment (ETP) – A payment made by an employer to an employee on termination of employment. Examples can include a redundancy payment exceeding the tax-free amount, accrued sick leave or an ex gratia payment.

F

Fringe benefit – A benefit provided to an employee by an employer in respect of employment. Super contributions made by an employer to a complying super fund are excluded from Fringe Benefits.

Fringe Benefits Tax (FBT) – A tax payable by an employer on the taxable value of certain fringe benefits received as an employee. The current rate of tax is 46.5%.

G

Gainfully employed – Employed or self-employed for gain or reward in any business, trade, profession, vocation, calling, occupation or employment.

I

Income stream – An investment that provides a regular income, such as an account based pension or transition to retirement pension.

In specie contribution – The contribution of an asset into super rather than cash. It's achieved by transferring ownership of the asset to the super fund. Only certain types of assets can be transferred.

M

Mandatory employer contributions – Super contributions an employer is required to make on your behalf by law. Includes Superannuation Guarantee (SG) contributions and employer contributions required under an industrial award or certified agreement.

Marginal tax rate – The stepped rate of tax you pay on your taxable income (see FAQs on page 23).

N

Non-concessional contribution cap – A cap that applies to certain super contributions. These include, but are not limited to, personal after-tax contributions made and spouse contributions received. In 2012/13, the cap is $150,000. However, if you are under age 65, it maybe possible to contribute up to $450,000 in 2012/13, provided your total non-concessional contributions in that financial year, the last two proceeding years, and the following two financial years, do not exceed $450,000. If the cap is exceeded, excess contributions will be taxed at a penalty rate of 46.5%.

P

Pension offset – A tax offset of 15% on the taxable income payments received from an income stream investment between the ages of 55 and 59. The offset is also available before age 55 if death and disability benefits are paid as an income stream.

Personal after-tax super contribution – A super contribution made by you from your after-tax pay or savings.

Preservation age – The age at which you can withdraw your preserved super benefits – between 55 and 60, depending on your date of birth (see FAQs on page 23).

Preserved benefits – Benefits that must be kept in the super system and cannot be withdrawn until you meet a condition of release (see FAQs on page 23).

R

Reportable employer super contributions – Certain super contributions (such as salary sacrifice) that must be identified by an employer and included on an employee's Payment Summary.

Restricted non-preserved benefits – Benefits that can be withdrawn on termination of employment, provided your employer has contributed into the fund. These benefits are also available if you meet another condition of release (see FAQs on page 23).

Rollover – When you move your super benefits directly to another super fund.

S

Salary sacrifice – An arrangement made with an employer where you forgo part of your pre-tax salary in exchange for receiving certain benefits (eg super contributions).

Self-employed – To qualify as self-employed, you need to receive less than 10% of your assessable income, reportable fringe benefits and reportable employer super contributions from eligible employment.

Self-managed super fund (SMSF) – A super fund with fewer than five members, where generally all members are trustees of the fund and all trustees are members.

Spouse contribution – An after-tax super contribution made on behalf of an eligible spouse (see FAQs on page 22).

Superannuation Guarantee (SG) contributions – The minimum super contributions an employer is required to make on behalf of eligible employees is 9% of ordinary times earnings in (2012/13) up to the maximum super contribution base limit of $45,750 (2012/13) per quarter.

T

Tax deduction – An amount that is deducted from your assessable income before tax is calculated.

Tax free component – That part of a super benefit that is received tax-free.

Tax offset – An amount deducted from the actual tax you have to pay (eg franking credits).

Taxable component – The remainder of a super benefit after allowing for the tax free component. The amount of tax payable on the taxable component may depend on the manner in which the benefit is received (ie lump sum or income stream), the age of the recipient, the dependency status of the beneficiary (death benefits only) and the size of the benefit.

Taxable income – Income, including capital gains, you receive after allowing for tax deductions.

Taxed super fund – A super fund that pays tax on contributions or earnings in accordance with the standard superannuation tax provisions.

Transition to retirement pension – An income stream investment that can be commenced without retiring or meeting a condition of release, after reaching your preservation age.

U

Unrestricted non-preserved benefits – Benefits that have met a condition of release and therefore can be withdrawn from a super fund at any time.

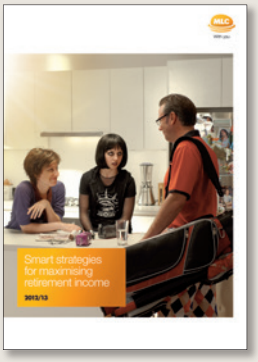
V

Voluntary employer contributions – Include salary sacrifice contributions and contributions made by an employer that are discretionary.

Notes

MLC has a range of other smart strategy guides.

Ask your financial adviser for more details.



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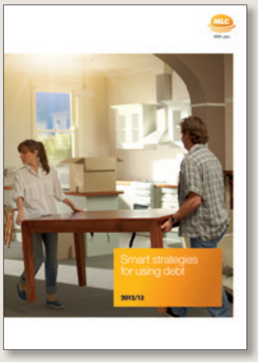

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