

... "The benefits available through your super funds have never been better..."

The changes to superannuation rules announced in the May Budget were great news for members of Self-Managed Superannuation Funds (SMSFs). There is now the opportunity to use SMSFs to implement highly tax-effective wealth accumulation and retirement income strategies.

New measures announced by the Treasurer have clarified how the proposed changes to superannuation will apply and while the legislation is yet to be passed the changes are expected to come in from 1 July 2007.

There is a transitional period ending 30 June 2007 that provides a window of opportunity for our clients to consolidate assets within their superannuation fund to maximise the benefits to them from the new, even more, concessional tax treatment of superannuation. This will allow an individual to contribute up to \$1 million to their superannuation (note that with SMSFs this can be done as an in-specie transfer of assets) as a personal undeducted contribution. There are important additional concessions for small business owners*.

SIMPLIFIED CONTRIBUTION RULES

From 1 July 2007, deductible contributions will be limited to \$50,000 per year, regardless of your age.

For the current financial year you can claim the following amounts as a tax deduction: if you are under 35 years of age \$15,260; age 35 – 49 \$42,385; and 50 and over \$105,113.

For those over 50 years of age a transitional period will apply allowing deductible contributions of \$100,000 pa from 1 July 2007 until 30 June 2012.

⇒ Contributions tax of 15% will continue to apply to deductible contributions.

⇒ Contributions in excess of the \$50,000 limit will be taxed at the top marginal tax rate of 45% plus Medicare.

**If you want to find out more about these changes please give us a call, email us, visit our website, or come in to see us and one of our specialist superannuation advisers would be happy to identify ways that you may be able to benefit from these changes. See our details over.*

PROPOSED CHANGES TO SUPERANNUATION - OVERVIEW

To recap on the proposed changes to apply from 1 July 2007 onwards:

- ⇒ Superannuation benefits paid as a lump sum or pension to you once you are over 60 will be tax free
- ⇒ Reasonable Benefit Limits will be abolished which means there are now no restrictions on the amount that you can have in superannuation that is taxed on a concessional basis.
- ⇒ You will have greater flexibility to determine how and when you draw down on your superannuation in retirement
- ⇒ The concessional tax treatment of the contributions that you make to superannuation and the earnings on your SMSFs investments will remain.
- ⇒ If you are self-employed people you will be eligible to claim a 100% tax deduction for your superannuation contributions and can also claim the Government's co-contribution.
- ⇒ You will be able to make deductible contributions up until age 75 (provided employment tests are met after age 65).
- ⇒ It will be easier to transfer your benefits between superannuation funds to consolidate superannuation assets within a SMSF.

TRANSITIONAL MEASURES

The Government has announced that transitional measures will apply for the current financial year for the period 10 May 2006 to 30 June 2007 which will allow you to contribute up to \$1 million as an undeducted contribution to superannuation.

⇒ This may provide a 'window of opportunity' to restructure investments to ensure that you have the most effective overall structures in place.

From 1 July 2007, undeducted contributions will then be limited to \$150,000 pa per individual with the 3-year averaging provisions to continue to apply which would allow a one-off contribution of \$450,000 (but no further undeducted contributions would then be able to be made for three years).

Once an individual turns 65 years of age they will be limited to an annual undeducted contribution of \$150,000 (i.e. they will not be able to utilise the averaging provisions).

⇒ Those over 65 will continue to need to meet the work test to be eligible to contribute to superannuation (i.e. gainfully employed on at least a part-time basis defined as 40 hours over 30 consecutive days in the financial year the contribution is made).

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CONCESSIONS FOR SMALL BUSINESS OWNERS



If you are a small business owner, the proceeds from the sale of your business assets that would currently qualify for the small business capital gains tax exemptions (i.e. the 15 year exemption and the CGT retirement exemption) will now have a CGT exemption up to lifetime limit of \$1 million (indexed). This limit was previously \$500,000.

- ⇒ This \$1 million limit will also apply to pre-CGT assets and if an asset is disposed of after the permanent disablement of an owner where the asset was owned for less than 15 years.
- ⇒ There will also be an exemption for the proceeds from a settlement for an injury resulting in permanent disablement.

BENEFITS PAID TO INDIVIDUALS UNDERS 60 YEARS OF AGE

While you are under 60 years of age, if you withdraw a lump sum from your fund it will have two components – a tax exempt component and a taxable component.

- ⇒ The tax exempt component will include the Pre-July 1983 component; CGT exempt component; post June 1994 invalidity component; concessional component and undeducted contributions. The Pre-July 1983 component will become a fixed component based on the value of benefits as at 30 June 2007.
- ⇒ If you are 55-59 years of age, the taxed component will be tax free up to the low rate threshold and 15% above this threshold. The low rate threshold will be set at \$140,000 from 1 July 2007 and indexed with AWOTE in \$5,000 increment amounts. For those under 55 this component will be taxed at a maximum rate of 20%.

A pension paid from your Fund to you if you are under age 60 will continue to be taxed under current arrangements. Pensions commenced on or after 1 July 2007 would have the tax deductible amount calculated based on the new tax exempt component which may for some individuals create a larger deductible amount if you have Pre-July 1983 service. Once you are age 60 the pension will then be tax free.

REGULATION OF SELF-MANAGED SUPERANNUATION FUNDS

Trustees of SMSFs can expect increased compliance activity from the ATO as additional resources will be provided to the ATO to better regulate SMSFs. The Government has signalled that it is concerned about the level of compliance of SMSFs with superannuation law and the level of trustee understanding of their responsibilities.

SMSFs will be required to lodge a single annual return with the supervisory levy to be collected as part of the Fund's income tax assessment. The return will consist of the annual regulatory return, the income tax return and the member contributions statement. This change is designed to make managing a SMSF easier.

- ⇒ For the 2007/08 year onwards, the ATO' supervisory levy will increase to \$150 per fund (current \$45 per fund).

PAYMENT RULES SIMPLIFIED

The rules about when you can access your superannuation will not change. You will still need to reach your preservation age and be eligible to take your benefits or you will need to be age 65 even if you have not retired.

There will no requirement for you to draw down on your superannuation once you reach a particular age. You will be free to draw on your superannuation as and when you want.

Pensions will receive very favourable tax treatment as outlined above however the rules for pensions will also be simplified. Earnings on assets supporting these pensions will remain tax free.

- ⇒ If you are over age 60 there will be a minimum pension that must be taken each year but no maximum pension.
- ⇒ Pensions commenced before 1 July 2007 will be deemed to meet the new standards (i.e. there will be no requirement to commute existing pensions and commence new pensions)
- ⇒ Where pensions are commenced under the Transition to Retirement rules or for pensions paid to those between age 55-59 these will still be a maximum of 10% of the account balance.

Remember that with the new 'Transition to Retirement' rules you can commence a pension from your superannuation fund once you are 55 years of age even while you are still working. This strategy has already proved to be extremely tax effective for a number of our clients but needs to be considered on a case-by-case basis. If you would like to find out more about this please contact us and we will also be running a series of workshops in October for our clients to explain how they can benefit from this financial strategy option.



DEATH BENEFITS PAID FROM SUPERANNUATION FUNDS

All lump sum death benefits will be tax free if paid to your dependents (including your spouse, child under 18, or financial dependent).

For payments to non-dependents the taxable component (Post-June 1983) will be taxed at 15% up to \$1 million and the top marginal rate above that amount – as per the existing arrangement.

For death benefits paid as a reversionary pensioner the taxation treatment will depend on the age of the primary and reversionary beneficiaries.

- ⇒ If the primary beneficiary was over age 60 at the time of death the payments to the reversionary beneficiary will be tax exempt.
- ⇒ If the primary beneficiary was under age 60 at the time of death the pension will continue to be taxed at the reversionary pensioners marginal rate (less any deductible amount and the pension rebate) unless or until the reversionary pensioner is 60 years of age in which case it will be tax exempt.

Even if you had not commenced a pension at the date of death, your benefits may still be paid as a pension to your spouse or dependent child (until they are 25 years of age when it must be paid as a lump sum - tax free). A pension will not be able to revert or be paid to a non-dependent on death and will have to be made as a lump sum.

Huon Partners Pty Ltd • Chartered Accountants

346 Griffith Road • PO Box 401 • Lavington NSW 2641

P> 0260257000 F> 0260406155 E> super@huonpartners.com.au W> www.huonpartners.com.au