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Lifestyle Matters

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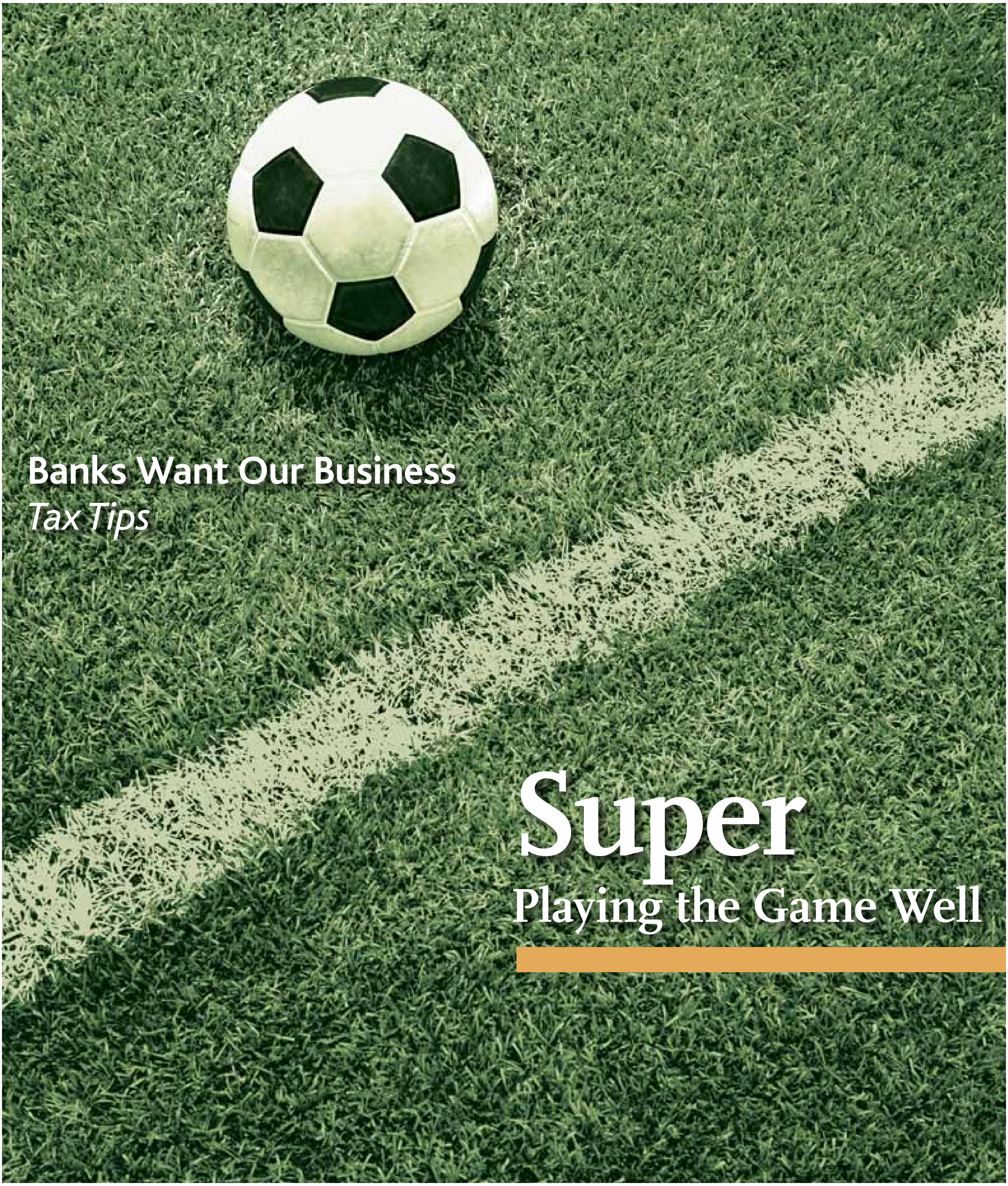

Banks Want Our Business

Tax Tips

Super

Playing the Game Well

…it is possible to remain below the $500,000 threshold…

Superannuation – Playing the Game Well

If you think of superannuation as a game, then you can either be a good, average or poor player. Good players work the rules of super as much as possible, gaining every conceivable advantage, no matter how small or seemingly insignificant.

And just when you think you have it nailed, the game master, The Government, changes the rules. Continuing this year with what may of have been a great strategy last year could result in harsh penalty taxes – much to the surprise of many thousands who have been charged excess contributions tax recently.

Towards the end of 11 years in government, The Liberal led Coalition turned super into an unparalleled tax haven. "Playing the Game well" meant following a lazy, and relatively risk-free, road to financial independence by simply maximising your pre-tax super contributions. Two years after Costello's game changing super reforms of 2007, and the game started becoming complicated and tricky again.

In 2009, in only its second year of its first term, the Labor Government took the "obscenities" out of the superannuation system by halving the amount that could be contributed tax effectively to super. Reducing super contributions from $50,000 to $25,000 (including compulsory contributions) has meant that self-funding financial independence through super is now virtually impossible for most (unless you are in a generous Government superannuation scheme).

But the May 2011 Budget has now proposed "new contribution rules" that might help soften the blow from the above blatant tax grab. Wayne Swan announced that there would be an extension of transition provisions that allow increased contributions of $50,000pa at age 50 and above. Here is the catch. The increased limit only applies where your super is below $500,000.

So how do we keep playing the game well given the above rule changes? It may be time to dust off the old **Contribution Splitting Strategy** that we sent to storage when Costello abolished the hated Reasonable Benefit Limits. By transferring contributions from the high income earner's super account to the low income earner's super account, it is possible to remain below the $500,000 threshold and take advantage of higher contribution limits for longer, thereby saving significant tax along the way.

The example below illustrates the impact of playing the game well. Using this strategy (i.e. splitting contributions with a lower income earning spouse), a 45 year old with $150,000 in super today could increase future tax deductible contributions by **$300,000 giving a tax saving of $70,500…**that's potentially an extra $70,500 in your pocket, **by just playing the game well!**

		NO SPLITTING		SPLITTING		MTR = 38.5%	
Age at June	Year End June	Total Super Contributions	Combined Super Balance	Total Super Contributions	Combined Super Balance	Additional Contributions	Tax Saving
50	2016	60,000	517,048	60,000	517,048	0	0
51	2017	60,000	607,264	60,000	607,264	0	0
52	2018	30,000	677,482	60,000	703,976	30,000	7,050
53	2019	35,000	757,171	70,000	816,483	35,000	8,225
54	2020	35,000	842,597	70,000	937,091	35,000	8,225
55	2021	35,000	934,175	70,000	1,066,382	35,000	8,225
56	2022	40,000	1,036,761	80,000	1,213,813	40,000	9,400
57	2023	40,000	1,146,734	80,000	1,371,860	40,000	9,400
58	2024	40,000	1,264,625	80,000	1,541,285	40,000	9,400
59	2025	45,000	1,395,420	90,000	1,731,741	45,000	10,575
						300,000	**70,500**

Assumptions: MTR=38.5%, Return=7.2%, Starting super balances=$150K & $50K

June Year End Tax Tips

Superannuation is currently Australia's great tax shelter and it is, therefore, no surprise that many of the quickest and easiest tax savings can be obtained by just playing the "Super Game" well. Tax savings in other areas can be made if you are organised and know what you are doing. Let's have a look at the most common Tax Tips we discuss with our clients leading into June.

1. Maximising Deductible Super Contributions.
Quite simply, depending on your income levels, an extra $10,000 contributed to your super fund could mean a tax saving of $3,150. With reduced contribution caps it is now more important than ever to contribute while you are earning a good income, as it is a "use it or lose it" scenario. If you leave it until when you are older, you will lose the tax savings and more than likely not have enough to retire on.

2. Contribution Splitting.
See facing article. The benefits could be substantial.

3. Co-Contribution.
This is about as close as you get to receiving money for nothing. If your taxable income is below $31,920 and you make a personal contribution of $1,000, the Government will co-contribute up to another $1,000 straight into your super fund. If your taxable income is between $31,920 and $61,920 you may be eligible for a reduced co-contribution. Ask us if you need more specific details around the amount of your potential Government co-contribution.

4. Spouse Contribution.
With the attractiveness of the co-contribution, the old Spouse Contribution has been largely forgotten. But it is still good value. A contribution of $3,000 to a spouse who has an assessable income of less than $10,800 provides a tax rebate to the contributor of 18% or $540.

5. Managing Capital Gains Tax.
Capital gains may come in the form of a profit on the sale of an asset or from managed fund distributions. If you are aware of these now, it is worth reviewing whether there are unrealised capital losses in your portfolio. If it makes investment sense to crystallize these losses, they can be used to reduce your CGT. Capital losses cannot be offset against your normal income so, again, it may be a use it or lose it situation. BUT, be aware that the ATO has warned against "wash sales" – where you sell the investment and buy it straight back for the purposes of simply generating a capital loss. This could be considered tax avoidance under PART IVA of the Tax Act.

6. Income Splitting and Family Trusts.
One of the "clangers" in the 2011 Federal Budget was the removal of the Low Income Tax Offset for a child under 18. The LITO meant that a child could earn up to $3,333 investment income without paying tax. Now, they can only earn $416 in tax free income. After the $416, the tax rate goes to 66%. Therefore, many income splitting and family trust arrangements will need to be addressed immediately to ensure these excessive tax rates do not apply next financial year.

7. Prepayments.
Sometimes it may make sense to bring forward expenses and pay them pre 30 June rather than after. For example, if your income is unusually high due to bonuses, which means you have been pushed into a higher tax bracket, prepaying tax deductible expenses now could give you a greater tax benefit in the current year rather than the future year. Some examples might include prepaying interest on investment loans, professional membership subscriptions and income protection premiums or bringing forward expenses such as charitable donations.

8. Medical Expenses Tax Offset.
This provides a 20% tax offset for family medical expenses over $2,000 with no upper limit. Collate your receipts and see if it is worth bringing forward those medical appointments or approved medical expenses if you are already over the $2,000 limit but may not get there next year.

Disclaimer:
The above article is for discussion purposes only and does not include all the relevant information around each tax subject. Please get relevant tax advice before acting on any of the above.

…same interest rate wherever you go.

Home Loan War Hots Up

Gotta love it! The banks want our business again! NAB's "broken up" with the other banks, St George is now offering pre-GFC discounts on even average size home loans and CBA is…doing nothing as they seem to have the most loyal customers who simply just don't want to leave???

Let's look at Westpac owned St George. As a group, Westpac have suffered as a result of their arrogance around interest rate rises. They have been the #1 offender when it comes to profiteering from the lack of competition in the home loan market since 2008 when lenders outside the BIG 4 either closed their doors or put themselves up for sale (ala St George to Westpac and BankWest to CBA).

But here is the irony. While Westpac (and to a lesser extent St George) have been charging customers a standard variable rate 0.20% higher than their competitors, they have also been the ones most willing to negotiate discounts to bring the net interest paid in line with their competitors. The price leaders at NAB/Homeside, on the other hand, know that they do not need to discount to win the business…so, generally, don't. The result should be that you pay pretty much the same interest rate wherever you go. If you are paying too much then ask for a discount and you will probably get it.

Now back to the price wars. Westpac and St George have suffered as a result of their high headline rates and have now stated that they are keen to win new business. For example, without any need for negotiation, St George is running a campaign until 31 July 2011 that gives a $700 rebate to help pay the costs of refinancing from another bank.

Additionally, St George has increased their interest rate discounts from 0.70% for loans over $250,000 to between 0.80% and 0.95%. 0.95% kicks in where the total borrowings are over $1MIL.

These are very good signs. If you feel like you are getting ripped off or would simply like to restructure your loan arrangements, feel free to give us a call and we can talk about how your situation can be improved. We think this is the start of a return to a competitive banking sector where the customers can take back some control.

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