

understanding superannuation

WHAT IS SUPERANNUATION?

Superannuation is an ownership structure designed to assist you accumulate funds for retirement. Just as you are able to hold assets like shares, property or managed investments in your own name, you are able to hold assets within superannuation.

To assist you save for retirement, the Government provides very generous incentives to make superannuation the preferred structure to hold assets. Two key attractions of the system are the tax concessions and contribution incentives. However, as superannuation was intended as a structure for retirement, there are conditions on when you can begin accessing these savings.

HOW ARE SUPERANNUATION CONTRIBUTIONS AND EARNINGS TAXED?

Contributions to superannuation can be made with before-tax or after-tax funds.

Contributions made with before-tax salary are referred to as concessional contributions and include those made on your behalf by your employer (known as the Superannuation Guarantee) and salary you forego as additional superannuation contributions (known as Salary Sacrifice). These contributions, are subject to a 15% contributions tax.

Contributions you make with after-tax income or personal savings, are known as non-concessional contributions and are not subject to the 15% contributions tax.

Irrespective of the type of contribution, earnings and realised capital gains

within your superannuation account are taxed at a maximum rate of 15%. In addition, a 33.3% capital gains tax discount applies to assets that are sold after being held for 12 months or more.

HOW ARE SUPERANNUATION WITHDRAWALS TAXED?

Depending on individual circumstances, there may be tax payable on withdrawals from superannuation.

Non-concessional contributions can generally be withdrawn tax-free but must be taken proportionally to the account's concessional contributions. The concessional components form part of your superannuation's taxable component and are taxed on withdrawal as illustrated in Table 1.

CASE STUDY

Luke is 56 years of age and has \$500,000 in superannuation, of which \$191,700 is comprised of non-concessional contributions, with the remaining \$308,300 comprising of concessional contributions. He has not withdrawn any superannuation benefits in the past.

Luke withdraws \$300,000 from his superannuation and wants to know how much tax is payable. His withdrawal must contain concessional and non-concessional benefits in proportion to the account balance.

- Non-concessional contributions (\$115,000) => No tax payable
- Concessional contributions (\$185,000) => First \$165,000 tax free, remaining \$20,000 taxed at 16.5%

Hence the total tax payable on the withdrawal is \$3,300. If Luke instead waited until age 60 to make the withdrawal, he would pay no tax.

LOW RATE THRESHOLD

The low rate threshold is the amount of superannuation that you can withdraw tax free from the 'taxable component' of your superannuation once it becomes accessible. This threshold is a lifetime limit that is indexed to inflation (but only increased in \$5,000 increments once accumulated indexation reaches this amount) and takes into account any previous withdrawals you have made.

CASE STUDY

Tracey is age 57 and has \$200,000 in superannuation consisting entirely of a taxable component. She has not made any withdrawals in the past and would now like to withdraw \$100,000 from her superannuation account. No tax would be payable on her withdrawal as she is allowed to withdraw up to \$165,000 tax free in 2011/12. After this she will still be able to draw a further \$65,000 tax free.

Table 1: Superannuation Withdrawal Tax Rates (Effective 2010/11)

Age	Amount	Maximum Rate of Tax (including Medicare Levy)
60 and above	Whole Component	0%
Preservation age to 59	First \$165,000	0%
	Balance over \$165,000	16.5%
Below Preservation Age	Whole Component	21.5%



This article by Frank Camilleri (above), National Technical Manager.

CONTRIBUTION INCENTIVES

The Government has various schemes to encourage contributions to superannuation. Two of these include the Government Co-Contribution and Spouse Contribution rebate.

CO-CONTRIBUTIONS

If eligible, the Government contributes up to \$1 for every dollar of non-concessional contributions you make. The co-contribution amount is capped at \$1,000 and available to those earning less than \$31,920 per annum. This amount progressively decreases at 5 cents in the dollar for income over \$31,920 and cuts out entirely once your assessable income and fringe benefits reaches \$61,920 (refer to 'Superannuation Co-Contribution' flyer).

SPOUSE CONTRIBUTION REBATE

Spouse contributions are superannuation contributions made on behalf of a spouse. If you make a contribution into your spouse's superannuation account and their income is less than \$13,800 per annum, you will receive a tax rebate of up to 18% of the contribution up to a maximum rebate of \$540.

The maximum rebate of \$540 applies to spouse income under \$10,800 and progressively reduces by 18c in the dollar for income above \$10,800 and no rebate is available once a spouse's income exceeds \$13,800.

CASE STUDY

Martha works part-time and earns an annual income of \$22,000. During the year, she makes personal contributions of \$1,000. As her annual income is below \$31,920, the Government will contribute the full \$1 for every dollar of non-concessional contribution that she makes.

Martha will therefore receive a co-contribution of \$1,000 (\$1,000 x \$1) from the Government.

CASE STUDY

Neil is studying full-time and not earning an income while his spouse Elle works full-time. Elle makes a spouse contribution of \$3,000 into Neil's superannuation account.

As Neil's income is below \$10,800, Elle is entitled to a 18% rebate on her contribution. Elle will therefore receive a rebate of \$540 (18% of \$3,000) on her tax return.

WHEN CAN I ACCESS MY SUPERANNUATION?

While superannuation is a tax-effective environment in which to accumulate savings, contributions are normally not accessible until you reach your preservation age and meet retirement conditions, or reach age 65.

The earliest age at which you can access your superannuation is known as your preservation age. Your preservation age will depend upon your date of birth as highlighted in table 1. You should take your preservation age into consideration when contributing large sums of money into superannuation as you may not be able to access these funds until you reach your preservation age and meet the retirement conditions.

Table 2: Preservation Age

Date of Birth	Preservation Age
Prior to 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
On or after 1 July 1964	60

CASE STUDY

Jason's date of birth is 1 December 1973. He wants to save more for retirement and is considering contributing \$50,000 in savings from his bank account into superannuation. Jason's preservation age is 60 and as such, if he contributed his bank savings into superannuation, that amount would be inaccessible for approximately 25 years. Before making the contribution, Jason should consider whether he will need these funds within this time.

In contrast, Chris' date of birth is 1 December 1954. He is currently age 54 and intends to permanently retire at age 55. Chris wants to enhance his retirement savings by sacrificing part of his salary into superannuation. As Chris intends to retire at age 55, and will be able to access his superannuation from then, the preservation rules are less of a concern to him.



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