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About Tax

A FRIENDLY TAX NEWSLETTER FROM MANU GUPTA

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Practice News

The team at M G Arthur & Associates specialises in Superannuation and SMSF Tax Strategies. We provide tax planning services to clients and regional accounting firms alike.

Feel free to contact us for all your superannuation and taxation queries.

NEWS POINT

SUPER SPECIAL 2013

Superannuation as a system of retirement savings and revenue generation has been tinkered with, by politicians and policy makers over the decades. Year 2012 was not an exception, instead possibly the biggest change year since the overhaul of the system in 2007.

This edition of AboutTax focuses on the recent and prospective changes and their impact on us as an individual, an employer or as a trustee of a Self Managed Superfund. We further this by bringing out some strategies and highlight some pitfalls which we need to be aware of.

INDIVIDUAL SUPER

Low Income Super Contribution (LISC) Introduced. To make the super tax system fair to low income earners (Adjusted Taxable Income up to $37,000), a LISC of up to $500 will be credited to your superfund account by ATO to offset the 15% tax charged on your pre-tax super contribution (including employer super). This will ensure that your superfund does not pay any tax if you fall in this income category, thus ensuring you are not disadvantaged by salary sacrificing into super if you fall under low tax threshold of $37,000. Effective: 1st July 2012.

Co-contribution Halved. Going back on their promise to increase co-contribution to $1.5 for each $1 you contribute, the government has instead cut the co-contribution to $0.50 for each $1. This is said to be used to fund the LISC above. As they say, to get something, you have to loose something! Effective: 1st July 2012.

> ***TIP!*** Check your potential co-contribution amount at ato.gov.au/calculators or call us, to ensure maximum co-contribution.

Contribution Tax Doubled. Normally 15%, but if you earn more than $300,000 a year, your superfund would pay 30% Contribution Tax. Said to bring fairness to the system, this goes contrary to government policy to encourage retirement savings and seems to be little more than a tax grab from high earners. Effective: 1st July 2012.

Contribution Limits Rolled Back. Rolling back from $50,000 per year pre-tax super contribution for people above 50 years of age to $25,000 a year, the government has gone back on its promise of keeping the higher limit for those with low super balances. So much for promoting retirement savings. This is a substantial reduction considering the limit was $100,000 in 2008. Effective: 1st July 2012.

Excess Contribution Tax Relief. If you contribute more than your limit of $25,000 pre-tax amount into super (including employer super), you can be hit by an Excess Contribution Tax, at a whopping 32.5%. As some of the readers would remember this with sore memories, ATO has been very strict and non-conciliatory on this matter in recent years. Some relief has finally been provided. A one-off concession can be availed by first time offenders (read 'misguided honest contributors towards retirement') if your excess contribution in FY2012 (or beyond) was up to $10,000. You would be allowed to get the amount refunded and include it in your personal tax return. Understandably, this wouldn't help someone who is already on the highest tax bracket of 46.5%. Effective: 1st July 2012 for 2011-12.

> **TIP!** There are other forms of relief available, including a de-minimus rule which can be used to avoid this huge penalty tax. If you face this situation, please contact us at the earliest.

Seek Your Lost Super. An improved Super Seeker website can help you search for your missing and unclaimed super. A staggering $17 billion in 'lost and unclaimed super' awaits your search. Please visit https://superseeker.super.ato.gov.au and keep your TFN details handy.

> **TIP!** If you don't find luck, don't be disheartened. You can call ATO on 13 10 20 and give them your details. As reported by some of our clients, ATO has better search facilities and better success rate.

Fee for Service Regime. A long standing complaint from taxpayers has been the unknown commissions they pay to financial planners attached with their superfund account, for which they get little or no service. A new fee for service regime is being brought in by the government to ensure that the financial planners would need to provide full disclosure and get your approval for any commissions they earn on your superfund account. Effective: 1st July 2013.

> **TIP!** If you are frustrated with poor performance and indifferent approach of your superfund, it might be time for you to step up and take control. Recent sharp rise in SMSFs, in part, reflects such a response. Remember, it is your retirement money!

EMPLOYER SUPER

Super Guarantee Rate Increase. Unfortunately when it comes to employers, Super Guarantee Charge, as it is known, has continued to mean additional costs and burden.

Starting from 1st July 2013, the rate at which you pay super guarantee on employee wages is set to increase steadily from current level of 9% to as high as 12%. Please refer to the chart below.

Increasing the superannuation guarantee rate from 9 to 12 per cent

Financial Year	Rate %
2013-14	9.25
2014-15	9.50
2015-16	10.00
2016-17	10.50
2017-18	11.00
2018-19	11.50
2019-20	12.00

> **TIP!** Even if you engage someone on ABN, you are more than likely liable to pay super if the payment made was largely for labour. Recent court cases have all fallen in favour of the 'deemed employee' working on ABN. If you engage contractors who are paid largely for labour, please contact us at the earliest for a risk assessment.

Super Guarantee Upper Age Limit Abolished. Up until now, an employer was not required to pay mandatory super guarantee for an employee aged above 70 years except if the award provided for it specifically. That is now being abolished. Effective: 1st July 2013.

New Payslip Obligation. To give your employees more information on when and how you have paid their super, in future, you may be required to provide this information on their payslip. Effective: Date Awaited.

TIP! Burdened by Super Choice and multiple super payment requirements for your handful of employees? Check out if Medicare Clearing House, a free government initiative to help small businesses, can help.

SMSF TRUSTEE SUPER

Investment Strategy. While already a known part of trustees' responsibilities, you are now required to regularly review your investment strategy under SIS law. There is no clarity on what 'regularly' means. ATO however expects trustees to minute their meetings and make appropriate changes to their investment strategy at least once a year. Effective: 1st July 2012.

Insurance. While it is not mandatory yet for SMSFs to provide compulsory insurance for their members, it is now mandatory for the trustees to consider insurance requirements for their members and document their decision. Effective: 1st July 2012.

Market Values. Trustees should now ensure that assets in their fund are brought to market value every year. This could mean additional cost burden for SMSF holding non liquid assets like properties, jewelry and other collectibles. Effective: 1st July 2012.

TIP! While more funds move into SMSFs, increased scrutiny is expected. It is critical that trustees of SMSFs understand their roles and responsibilities and ensure the fund is always compliant with law. Penalties of up to 46.5% of fund assets may apply for non-compliance. Talk to us if you have any concerns regarding your SMSF.

Collectibles. New rule have been brought in for holding and investing in collectibles and personal use assets from 1st July 2011. Stricter and clearer rules on how the assets should be held to ensure there is no private use of such assets prior to retirement are brought in. SMSFs already holding these assets have time up to 1st July 2016 to effectively sort this area of your superfund. Effective: 1st July 2011.

Related Party Transactions. Any transactions between related parties should be transacted through either listed securities markets (where such market exists) or supported by suitably qualified independent valuer. Effective: 1st July 2013.

TIP! Big Brother Gets Big Powers. Starting from 1st July 2013 ATO will have increased powers to;

- direct SMSF Trustees to fix contraventions
- issue administrative penalties against SMSF Trustees (and not just SMSF) of up to $11,000
- direct Trustees to undertake mandatory education
- tax illegally accessed super money at non-complying tax rate (currently 46.5%)

PLANNING POINT

Top 10 Super Strategies

1. **Pensions.** Starting a pension or transition to retirement pension ensures your pension account in your superfund is tax free saving up to 15%. This can potentially be combined with salary sacrifice to increase your cash flow while reducing your total tax payable.
2. **Re-contribution Strategy**. Most of us know that our super is tax free when withdrawn after we turn 60. However your children could pay huge tax on any taxed portion in your superfund account after you pass away. Withdrawal and Re-contribution Strategy could help your children save this tax.
3. **Anti Detriment Deductions**. If your superfund pays an additional 'anti-detriment' payment to your beneficiary, as part of your death benefit payment, your fund could get a substantially large tax deduction. As an example, a mere $30,000 of anti-detriment payment could provide $200,000 worth of tax deduction in the fund.
4. **Move your business assets into your SMSF**. Held in your hand, you could pay up to 46.5% tax on income and CGT on your positively geared investments. If held in your SMSF all this could be NIL under pension phase.
5. **Invest your SMSF funds overseas legally.** Superannuation law does not prohibit you from investing in genuine long term beneficial investments overseas. Make the most of high growth economies like India and China.
6. **Split contribution to spouse**. Spouse contribution splitting can be used as a means to ensure higher aged spouse gets to access super earlier, or on the converse, super balance is held in the account of lower age spouse to ensure maximum Centrelink Pension.
7. **Super Gear your Superfund.** Buy properties through borrowings in superfund to combine the benefit of negative gearing while you pay your debt down, and low tax on income and capital growth when you are positively geared.
8. **Old Fashioned Salary Sacrifice.** A simple old fashioned salary sacrificing strategy could help generate thousands of dollars in your fund while saving tax. Your superfund pays only 15% tax, while you could be paying up to 46.5%. A mere $1 a day contributed into your superfund over 20 years could give you additional $10,000 to enjoy in your retirement!
9. **Ensure Compliance with Law**. As the law becomes more and more complicated, ensure your SMSF complies with all areas of superannuation law. Non compliance could lead your superfund to be taxed at 46.5% of all assets held in the fund.
10. **Watch your Fund!** Whether it is a retail fund, an industry fund, or your own SMSF, it is your Retirement Fund! Ensure you have adequate insurance cover and have the right investment mix. If you are concerned about your fund going south-wards, talk to your financial planner. They are paid to do a job, and you can ensure they do that well.