

Preparing for the end of the financial year: what you need to know

Taxation and superannuation rules include many potential benefits and deductions. But if you don't fulfil the requirements or miss a time deadline you may miss out.

This fact file can help you prepare for the financial year end and sets out some things you can discuss with us.

Making a super contribution

Types of superannuation contributions

The two major types of super contributions are concessional and non-concessional.

Concessional contributions

Concessional contributions are pre-tax contributions which are generally made in three ways. Firstly, if you are employed, your employer will generally contribute 9% of your salary into super for you (known as Super Guarantee or SG contributions). Secondly, if you are an employee you can contribute using some of your pre-tax salary directly into super. This is known as 'salary sacrifice'. Thirdly, if you are an eligible person (eg self employed) you can make personal deductible contributions (conditions apply).

Non-concessional contributions

Non-concessional contributions are after-tax contributions. Examples of these include:

- personal contributions made by a person where a tax deduction is not claimed
- a spouse contributing to their partner's super fund
- a government co-contribution.

Key requirements

Whenever you make a super contribution it is important to make sure you:

- **meet the work test requirements** – if you are under age 65 there is no work test; if you are age 65 to 74 you must have been gainfully employed for at least 40 hours within 30 consecutive days in the financial year of a contribution.
- **provide a tax file number (TFN)** – without a TFN a super fund will not be able to accept your personal contributions.
- **stay within the contribution caps** – if you exceed the contribution caps for either concessional or non-concessional contributions, the amount contributed above the cap will incur additional tax.

Contribution limits – avoid the 'traps of caps'

The government places a limit or cap on the total amount you can contribute to super in any one financial year. The caps vary depending on your age and the type of contribution. The annual contribution caps for 2010–11 are:

- \$25,000 for concessional (or pre-tax) contributions if you are under age 50 on the last day of the financial year, such as employer contributions and salary sacrifice contributions.
- If you're aged 50 or over, a transitional cap of \$50,000 per financial year applies until 30 June 2012.
- The cap for non-concessional (or after-tax) contributions is \$150,000 per year, or \$450,000 over three financial years if you are under 65 in the financial year.

Exceeding a cap can result in a significant tax penalty, so talk to us and check with your super funds.

Strategies to supercharge your super

Super is a very tax effective investment over the long term. We can talk to you about a number of strategies that can maximise your superannuation today which can make a real difference to your future retirement savings.

'Salary sacrifice' into super

'Salary sacrificing' means making a super contribution from your gross (pre-tax) salary. Your sacrificed super contributions are taxed at 15%, and at the same time, by reducing your taxable income you may move to a lower income tax bracket.

Get a government co-contribution of up to \$1,000

If your total income is \$31,920 pa or less and you make a \$1,000 after-tax contribution to super, the government will give you a helping hand by contributing \$1,000 to your super account. The co-contribution reduces progressively by 3.33 cents for every dollar you earn over \$31,920 pa and ceases once your total income reaches \$61,920 pa.

We can assess your eligibility and give you more information on this opportunity.

Make a spouse contribution

If you are married or in a de facto relationship, you can make a contribution to your spouse's super and get a two-fold benefit. Firstly, a maximum tax offset of up to \$540 pa depending on your spouse's income. Secondly, the peace of mind knowing that you're helping save for your spouse's retirement.

If your spouse doesn't have a super plan, we can explain the best options for the spouse contribution.

Split super with your spouse

'Super splitting' involves transferring up to 85% of taxable contributions from the previous financial year to your spouse's super account. Depending on your circumstances, splitting super offers potential tax benefits and gives you greater flexibility at retirement.

Super splitting is not offered by all funds, so you will need to check with your fund if they offer this feature.

Personal deductible contributions

If you are no longer working or if you are self employed, it may be possible to sell an asset (for example, an investment property) and tax effectively contribute some of the proceeds to your super. An eligible person may claim a tax deduction for personal super contributions made during a financial year (up to concessional caps of \$25,000 or \$50,000 depending on your age).

Also, you may be an 'unsupported person' (eg retired or not working) and can claim the same tax deductions as a self employed person. Be aware that eligibility conditions apply, so speak to us to determine whether this strategy is suitable for you.

Other year-end strategies to consider

Insurance premiums

Some insurance premiums, such as those for income protection insurance, are generally tax deductible as an expense incurred in earning your income.

Prepay margin loan interest

If you have a margin loan, you can prepay up to 12 months' interest in advance (subject to the relevant prepayment rules). You can claim a tax deduction for the prepayment in this financial year, further reducing your taxable income.

Tax deductions for investment expenses

Expenses you incur while earning assessable investment income may be tax deductible. These expenses can include fees for financial advice, account keeping, management fees and interest payments on margin loans. Claiming a tax deduction for these expenses could reduce your assessable income for the financial year.

Review ownership structure of investments

Transferring the ownership of your investments to your self managed super fund (conditions apply) or to your spouse, could reduce the tax you pay on future investment income and capital gains. However, these transfers have capital gains tax implications so you should seek qualified tax and legal advice before proceeding.

Managing capital gains

It's important to assess if you have made any capital gains or losses from your investments. The most common way you make a capital gain (or capital loss) is by selling assets such as real estate, shares or managed fund investments. Managed funds also distribute capital gains which you must report. The Australian capital gains tax system is quite complex so it's important to consult with your tax adviser.

Timing is everything

Some of these strategies can take time to plan and implement. Just as importantly, a super contribution is registered in the financial year in which it is received and processed by the fund, regardless of a postal delay or technical problem.

So call us today to schedule an appointment and find out how you can get prepared.

Things to check:

Do I have a record of all my super accounts and contributions?

Does my employer allow salary sacrifice contributions?

What are my current contributions for this financial year?

Can I make a spouse contribution?

Did I make a contribution last year that I could 'super split' this financial year?

Speak to us for more information

If you would like to know more about these strategies, contact us. We can give you more detailed information on the best approach for your situation.

Important Information

This general advice has been prepared without taking into account your particular financial needs, circumstances or objectives. This advice is based on Financial Wisdom Limited's understanding of current law as at 11 April 2011. While every effort has been made to ensure the accuracy of the information, it is not guaranteed. You should obtain professional advice before acting on the information contained in this publication.

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