InvestSmart

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End of 2014-2015 financial year checklist

Welcome to Parkworth InvestSmart issue # 1. In this issue we look at some ways to help you maximise your investments and identify ways to position yourself well into the next financial year.

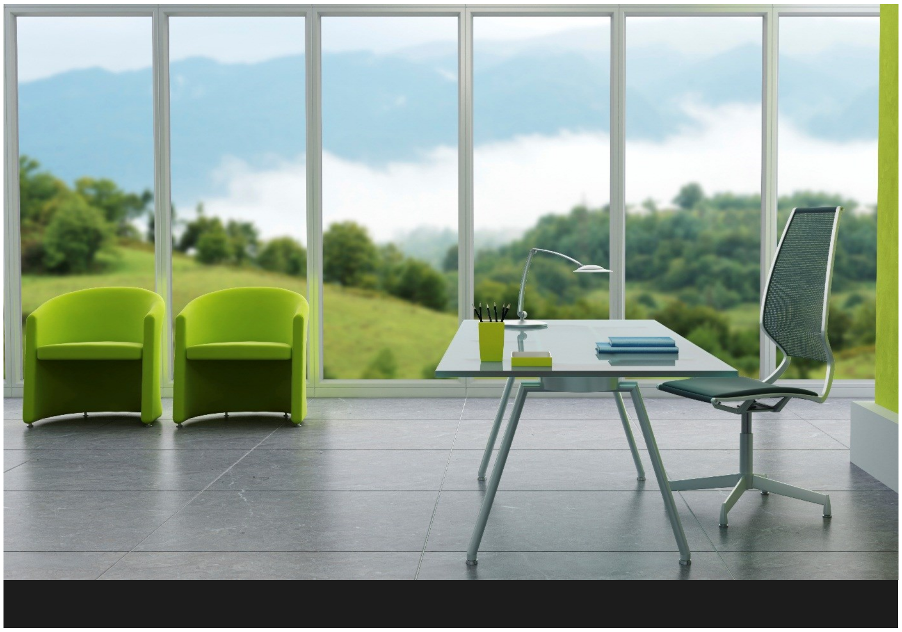
- Contribute to super and claim a tax deduction ✓
- Government co-contribution - Do I qualify ✓
- Get an extra $540 using superannuation ✓
- Aged 55 or over, you may qualify for tax offsets ✓
- How do I make a contribution to my spouse's superannuation ✓

"An investment in knowledge pays the best interest."

- Benjamin Franklin

In This Issue

- Tax deductible superannuation contributions
- The benefits of a transition to retirement strategy
- How the government will match your superannuation contributions
- Spouse contributions that may reduce your tax bill



‘Review contributions made during the financial year to avoid inadvertently triggering the ‘bring forward’ rule’.

Maximise the non-concessional contributions for the year

Superannuation can be a tax-effective way to help people build wealth for retirement. It makes sense to look at whether you have assets that can be contributed to superannuation to help maximise future earnings on those amounts.

Non-concessional, or after-tax, contributions are one way to get more money into the superannuation system. These contributions are capped at $180,000 for the 2014-15 financial year. When a client exceeds the non-concessional contributions cap, they have the option of withdrawing superannuation contributions above the cap made from 1 July 2013 and 85% of the associated earnings, with the full earnings to be taxed at their marginal tax rate (less a non-refundable tax offset equal to 15% of the associated earnings).

Clients under age 65 on 1 July of the financial year can ‘bring forward’ two years of non-concessional contributions giving them a total non-concessional contribution cap of $540,000 for the three years. For example, if you were age 64 as at 1 July 2014 they can make a $540,000 non-concessional contribution in the 2014-15 financial year.

Tips

- This year is the last opportunity for those who turned 65 after 1 July 2014 to trigger the ‘bring-forward’ provisions – subject to contribution rules being met.
- Prior to making any non-concessional contributions, it is important to first review any contributions that have been made during the current year and the previous two years.
- In order to maximise non-concessional contributions consider making a non-concessional contribution of $180,000 in June 2015 and then use the ‘bring-forward’ provisions and make another non-concessional contribution of $540,000 in July 2015.

Tips

- Salary sacrifice arrangements are only valid for future earnings, and not for income and entitlements your client has already earned. For example, if your want to contribute any year-end bonus to super, you need to have indicated to your employer of the desire to salary sacrifice your bonus prior to the bonus being 'earned'.
- Before recommending a client salary sacrifice additional amounts, check contributions already made into superannuation during the current year – this includes super guarantee or additional employer contributions that were received by the fund.
- For low income clients with adjusted taxable income under $37,000 the Government provides a low income superannuation contribution (LISC) of up to $500 p.a. on concessional contributions made during a financial year (this is to phase out after 30 June 2017).
- Where an excess concessional contributions charge is applied, it is payable for the year a person makes the excess concessional contribution. If you do not pay the charge by the due date, a general interest charge may apply.
- Clients who are self-employed, retired and/or receive less than 10% of their total income1 for the financial year from employment activities may be eligible to claim a tax deduction on any personal contributions they make to superannuation for that year.

Maximise concessional contributions for the year

Concessional contributions can also be an effective way to contribute to superannuation as they are made from pre-tax income up to an annual cap. They can also help clients reduce taxable income in the current year which could reduce their overall tax liability, or may help to keep clients below the $180,000 threshold for which the 2% Temporary Budget Repair Levy applies.

Importantly the cap is based on the age of a person as at 30 June of the previous financial year. Where the concessional cap is exceeded, amounts contributed above the cap will be included in a client's assessable income and taxed at their marginal tax rate (less a 15% non-refundable tax offset on the excess amount). Clients will also have to pay the excess concessional contributions charge on the increase in their tax liability.

Excess concessional contributions count towards the non-concessional contributions cap. Clients may elect to withdraw up to 85% of their excess concessional contributions from their superannuation fund to help pay their income tax assessment when they have excess concessional contributions. Any excess concessional contributions withdrawn from the fund is then grossed up (that is divided by 85%) and no longer counts towards their non-concessional contributions cap.

1 Gross assessable income, reportable employer superannuation contributions and reportable fringe benefits.

Income year	Cap for those aged 59 years or over on 30	Cap for those aged 49 years or over on 30	Cap for all other
2014-15	$35,000	$35,000	$30,000
2013-14	$35,000	$25,000	$25,000

‘Where the income stream consists of unrestricted non-preserved money, and where the fund allows, this money can be withdrawn at any time as a lump-sum.’

Continued…..

Where those types of contributions are to be made there are a number of considerations, including:

- You need to be eligible to contribute. This means meeting the work test (40 hours over 30 consecutive days) if you are aged 65 to 74[2] at the time the contribution is made.
- A valid notice needs to be completed and given to the super fund trustee before:
  - – the client lodges their tax return for the financial year in which the contribution was made, or
  - – the end of the following financial year after the contribution was made.
- You need to have an acknowledgement from the fund’s trustee confirming receipt of the notice.
- It is important that the trustee of the fund continues to hold the contribution for which a deduction is being claimed. Where part of the funds have been withdrawn or rolled to another super fund, the amount that may be claimed as a deduction will generally be reduced. If the contribution is used to start an income stream in the fund the ability to claim a deduction is lost.

Tips

- Where the income stream consists of unrestricted non-preserved money, and where the fund allows, this money can be withdrawn at any time as a lump-sum. Amounts withdrawn may count towards meeting the minimum pension payment requirements but they are not subject to the 10% limit.
- Non-commutable income streams started during the last month of the financial year do not need to make a minimum payment for that year, meaning the payment can be deferred until next year.
- If you are turning 60 during the financial year consider holding off any pension payments until you reach age 60.
- Preservation age is increasing to 56 from 1 July 2015, so you will need to be at least age 56 before they can start a transition to retirement strategy.

Transition to retirement income stream opportunities

A transition to retirement income stream provides a person who is still working but has reached preservation age (currently 55) access to their superannuation in the form of a non-commutable account-based income stream. There are a number of benefits for you, including the ability to:

1) continue working and increase the amount they currently contribute to super as a concessional contribution without reducing their current level of income

2) reduce work hours and maintain their current level of income

3) rollover money from the superannuation environment where earnings are taxed at a rate of up to 15% into the pension environment where earnings are not taxable.

Where money used to start the non-commutable income stream is preserved, payments made in the financial year must not exceed 10% of the purchase price in the year of commencement or 10% of the account balance at 1 July in subsequent years.

2 To be eligible to make a personal deductible contribution, it must be made on or before the 28th day in the month following the clients 75th birthday.

‘By making a spouse contribution, the contributing spouse may be eligible for a tax offset of up to $540, this is 18% of up to $3,000.’

Maximise government co-contributions

Government co-contributions provide eligible clients with the opportunity to receive a co-contribution of up to $500 from the Government to help increase their retirement savings.

To be eligible you must:

- make a non-concessional contribution to a complying super fund in the financial year and not claim a tax deduction for the contribution
- receive 10% or more of their total income[3] for the year from eligible employment, carrying on a business, or a combination of the two
- have less than $49,488 total income[3] in the financial year
- lodge an income tax return for the financial year
- be under age 71 at the end of the financial year, and
- not hold a temporary resident visa during the financial year unless you are a New Zealand citizen or the holder of a prescribed visa.

You will not need to apply for the co-contribution. If they are eligible the Australian Taxation Office will automatically calculate the co-contribution and deposit it into your super fund.

Take advantage of the spouse contributions tax offset

Spouse contributions are non-concessional contributions that you can make on behalf of your spouse. A key feature of this type of contribution is that the contributing spouse may be eligible for a tax offset of 18% on contributions up to $3,000.

To be eligible:

- you must make a non-concessional contribution into your spouse’s complying super fund in the financial year and not claim a tax deduction for the contribution
- your spouse must be under age 65 or if has reached age 65 but is under age 70 must meet the work test
- you and your spouse must be Australian tax residents
- at the time of making the contribution you and your spouse are not living separately and apart on a permanent basis, and
- the spouse’s total income[3] must be less than $13,800 in the financial year.

Spouse contributions count towards the spouse’s non-concessional contributions cap.

3 Gross assessable income, reportable employer superannuation contributions and reportable fringe benefits.

Tips

- Ensure your Tax File Number has been provided to your super fund

If your super fund does not have your Tax File Number (TFN) before the end of the financial year, your employer contributions will incur 15% contributions tax plus an additional 31.5% no-TFN contributions tax and your super fund may not be able to accept any personal contributions.

- Look to bring forward deductions into this current year

Maximising net income and investing tax effectively are important personal goals. Therefore, it is a good time to consider pre-paying/bringing forward any tax deductible expenses. These include:

⇒ donations to charity

⇒ premiums for Income Protection Insurance held outside of superannuation environment

⇒ interest payments on investment loans

⇒ the cost of maintenance and repairs to investment properties.

Contribution splitting opportunities

Contribution splitting gives you the opportunity to increase their spouse's superannuation, using money you have accumulated within superannuation.

In summary, you can split up to 85% of concessional contributions (up to the concessional contributions cap) where your spouse:

- has not reached preservation age, or
- has reached preservation age but is under age 65 and has not retired.

To split a contribution your must apply to your super fund by the earlier of:

- the day you request your entire account balance to be rolled over, transferred or cashed in for the financial year in which the contribution was made, or
- the end of the following financial year after the contribution was made.

Contributions which are split continue to count towards your concessional contributions cap so cannot be used as a strategy to mitigate excess contributions tax.

'You can split up to 85% of concessional contributions (up to the concessional contributions cap) made during a year.'

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