FINANCIAL PLANIT

Are you Super ready **for the Year End?**

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This year (2018/19) is already racing by. But before we get to the end of another financial year, take some time to think about how well you have looked after your superannuation savings this year.

Australians have saved over $2.6 trillion in superannuation. That's a lot of zeros. So how much belongs to you and are you saving enough to pay for a comfortable retirement?

It is not too late to take advantage of some opportunities for tax concessions in this financial year. So what could you do?

If you have income less than $52,697...	Make a personal contribution up to $1,000 into your super account and receive up to 50% bonus (eligibility rules apply)	Refer to Co-contributions
If you are an employee...	Speak to payroll about putting some of your pre-tax salary into super to reduce your tax bill	Refer to Extra employer contributions
If your spouse has income less than $40,000...	Make a contribution to his/her account to reduce your tax bill and build his/her savings	Refer to Spouse contributions

Warning
You need to remember that money held in super generally cannot be taken out until you permanently retire or reach age 65. So before adding money to your account make sure you won't need to use the money earlier.

Co-contributions

How good is this! If you put $1,000 into your super fund, the government may also add up to $500 as a co-contribution. This is a simple way to increase your savings. But you need to make your contribution before the end of the financial year.

Of course there are eligibility rules. If you can tick all the boxes below you will be eligible to receive a co-contribution from the government.

Will you:	Tick
Have income* less than $52,697	☐
Be under age 71 on 30 June	☐
Make a personal contribution^ to your super (but less than your cap)	☐
Be a permanent resident for the full year	☐
Lodge an income tax return	☐
Earn at least 10% of your income* from working	☐

* Income is generally defined as the sum of assessable income plus fringe benefits paid by your employer and recorded on your PAYG summary plus extra amounts that your employer pays to super above the 9.5% super guarantee.

^ Amounts you salary sacrifice through your employer do not count. You need to make personal after-tax contributions.

If you ticked all the boxes and are eligible, the government will put in 50 cents for every dollar you put into your super account up to a maximum co-contribution of $500. But some limits apply. To get the full $500 your income needs to be below $37,697. The maximum co-contribution is reduced by 0.03333 cents for every dollar that your income is over $37,697 and nothing is payable once your income reaches $52,697.

Examples

Mary is age 39 and earns $30,000 a year. She takes $1,000 out of her bank account and puts it into her super account. The government will also put a $500 co-contribution into her account.

Phil is age 43 and earns $40,000 a year. He can only receive a co-contribution up to $423.24*. If he puts at least $846.48 into his super account as a personal contribution the government will add the $423.24.

* Calculated as: $500 – [($40,000 - $37,697) x 0.033333] = $423.24

Tip

This rate is less generous than it once was but at a 50 cent matching rate up to a maximum co-contribution of $500 it is still worth getting.

Extra employer contributions

Generally your employer will add 9.5% of your salary into your super account. Many employers will agree to add more if you ask them to reduce the cash salary you receive and pay the extra as an additional employer contribution to your super account – this is called salary sacrifice.

This has the benefit of reducing the tax you pay so that you can add more money to your savings and help your super grow faster.

Example

Ralph earns a salary of $60,000 per year. His employer also pays $5,700 into his superannuation account.

Ralph wants to reduce tax and build up his savings. He arranges to reduce his cash salary by $5,000 and his employer will pay this amount into super.

Note: Your employer may choose to pay employer contributions on your reduced salary after your super contributions are deducted which can decrease the value of this strategy.

	Current package	Revised package
Cash salary	$60,000	$55,000
Tax payable (including 2% Medicare Levy and low income offset)	$11,617	$9,817
Net cash salary	$48,383	$45,183
Employer super (9.5%)*	$5,700	$5,700
Plus: additional employer super (salary sacrifice)	Nil	$5,000
Less: tax on super (15%)	$855	$1,605
Net super contribution	$4,845	$9,095
Total after-tax value to Ralph (cash plus net super)	$53,228	$54,278

* Assumes the 9.5% super guarantee is based on total package and not just cash salary. Need to check details with your employer.

By reducing his salary and asking his employer to make the extra contributions to super, Ralph receives an extra $1,050 a year in value.

Check that your employer does not contribute in this year more than $25,000 to your super (including the amounts you salary sacrifice) or you will create an excess. Sometimes other amounts count towards these limits, so always get tax or financial planning advice.

Spouse contributions

If your spouse does not work full-time and has not had the opportunity to accumulate much in super, you have an opportunity to boost his/her super by making contributions and you could save some tax as well.

If your spouse's income is less than $37,000 you can claim an 18% tax offset on the first $3,000 of contributions that you make to his/her account. A smaller offset is available if your spouse's income is over $37,000 and no offset is allowed once his/her income reaches $40,000.

Example

Hilda earns $25,000 a year from some part-time work. Her husband Jorgan puts $3,000 into her super account.

Jorgan can claim a tax offset of $3,000 x 18% = $540. This reduces his tax by $540.

Six other tax planning tips before 30 June

1. If you are on higher levels of income, private health insurance may be needed to avoid paying the Medicare Levy Surcharge. You may not be able to avoid liability for this full year but taking out appropriate cover before 1 July may ensure you don't pay it next year and reduce the cost in this year.
2. Prepay deductible expenses to increase your tax deductions and reduce tax payable this year.
3. If you sold an asset that realised a capital gain look at your other assets to see if you want to sell any (if appropriate) that will create a loss which may offset the gain.
4. You should consider if you could benefit from making a personal contribution to super and claiming a tax deduction to offset taxable income or capital gains.
5. You can choose to claim tax deductions for eligible personal contributions instead of salary sacrifice. Advice should be sought to evaluate which option works best for you.
6. If you have an account-based pension, make sure you have taken the minimum income payment by 30 June otherwise you will pay tax on earnings in the fund for the whole year.

Further information

For further information regarding these strategies, please feel welcome to contact me.

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