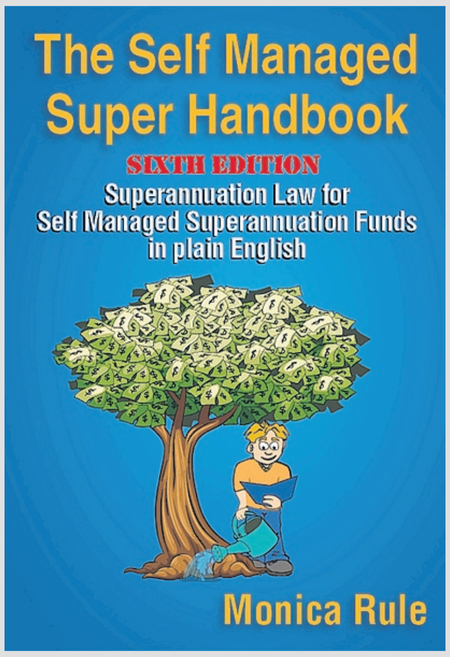
Super book charts domestic horrors



Bankruptcy, divorce, dementia and terminal illness might sound like the stuff of horror stories.

Yet these are issues that many of us will have as we do our laps of the mortal coil.

And they present particular challenges to people who are operating self-managed superannuation funds.

Author and consultant Monica Rule tackles these difficult topics in the sixth edition of her popular publication The Self Managed Super Handbook.

Ms Rule said it was important that trustees of self-managed superannuation funds not only understood the fun and interesting parts of building and managing a retirement nest egg. She said it was also important to understand how to deal with the emotionally and potentially legally complex issues that arose with divorce and serious illness, as well as a member becoming bankrupt.

"I've included these important issues in my book because I regularly have people asking me for help with these matters," Ms Rule said. "It's really important that people understand their options if they find themselves in these unfortunate circumstances."

■ Copies of the new book can be purchased from Ms Rule's website sunshinepress.com.au

Profit from super reform

Millions more will be able to make tax-friendly contributions

DIY SUPER

Monica Rule

It will be worthwhile for everyone from retirees to those in full-time work to wrap their heads around the Federal Government's proposed changes to superannuation laws.

The proposed changes before Parliament will make it easier for many people, including the millions of Australians who derive most of their income from jobs, to make tax-deductible contributions to superannuation.

The changes will make it easier for employed Australians to make contributions to superannuation funds late in the financial year if it becomes apparent there is room left in their annual concessional contribution caps.

Under the law as it stands, someone with a job must rely on superannuation guarantee contributions by their boss and regular salary sacrifice from their pay packets to get anywhere near the concessional contribution cap of $30,000 for someone under 50.

Someone aged under 75 and deemed by superannuation laws to be self-employed can make contributions to their superannuation and then claim a tax deduction for the contribution.

Also, someone aged under 75 who does not receive any superannuation support from anyone can also claim a deduction for super contributions. A retiree must pass a work test to be able to make super contributions.

These contributions are subject to the same annual concessional contribution caps that affect superannuation guarantee contributions by employers to an employee's superannuation fund and salary sacrifice by employees.

Unfortunately, under current law, full-time and most part-time employees are unable to claim a tax deduction on contributions.

This is because the super laws define self-employment narrowly as earning less than 10 per cent of their total income from paid jobs.

But the Government proposes to remove the 10 per cent rule so everyone will be able to claim a tax deduction on their contributions.

If the proposal becomes law, the concessional contributions cap will be $25,000 per year across the board, as opposed to $30,000 for people aged under 49 and from $35,000 for people aged 49 or above.

Concessional contributions caps relate to superannuation contributions from income on which income tax has not been paid or contributions for which an income tax deduction will be claimed.

There is a fair bit of give and take in the super changes.

The Government had also planned to drop the work test for people aged 65 or more but that was lost in the political maelstrom after the Federal Budget in May.

Likely to survive the Parliamentary process is the Government's proposal that people will be able to use the "catch-up" concessional contributions cap from July 1, 2018.

Under the catch-up rules, superannuation fund members will be able to contribute more than the annual concessional contributions cap of $25,000 if they have not used the cap fully in the previous five consecutive years, and their superannuation balance does not exceed $500,000.

This means an individual can make concessional contributions in a single year of up to the $25,000, plus any carried-forward amount they have available from the past five years, starting from July 1, 2018, and claim the tax deduction on the entire amount contributed.

The carried-forward amounts will expire if they remain unused after five years.

> "IF THE PROPOSAL BECOMES LAW, THE CONCESSIONAL CONTRIBUTIONS CAP WILL BE $25,000 PER YEAR ACROSS THE BOARD.

Low income offset

People with an adjusted taxable income of up to $37,000 a year who have personal or employer concessional contributions made into their superannuation fund will receive a low-income tax offset of up to $500. The tax offset represents a refund of the tax paid on concessional contributions made into the superannuation fund.

It is the rebadged low-income super contribution scheme that had been earmarked for the axe by former treasurer Joe Hockey.

The new tax offset will be calculated at 15 per cent of the concessional contributions made into the fund.

The maximum tax offset claimable in a financial year is limited to $500 and the minimum amount is rounded to $10.

To qualify, the person must receive at least 10 per cent of their total income from employment or from running a business and they must not hold a temporary residency visa.

Spouse contributions

Someone can claim a tax offset of up to $540 for making superannuation contributions for a spouse on a low income.

The tax offset is calculated at 18 per cent of the maximum $3000 non-concessional contribution.

To be eligible for the full tax offset, the low-income spouse's annual income must not exceed $10,800.

The tax offset gradually reduces once the spouse's income exceeds $10,800 and cuts out all together once income reaches $13,800.

To be eligible, the spouse receiving the contribution must be under the age of 70 and if they are aged 65-69 they must meet the work test of 40 hours over 30 consecutive days.

Both the contributing spouse and the low-income spouse must be Australian residents for income tax purposes and not be living separately and apart on a permanent basis at the time the contribution is made.

Contributions made on behalf of the spouse will count towards the receiving spouse's non-concessional contributions cap.

Contributions that are split into a spouse's superannuation account do not qualify for the tax offset.

From July 1 next year, the Government proposes to increase the receiving spouse's income threshold from $10,800 to $37,000 and increase the cut-off threshold from $13,800 to $40,000.

Co-contributions

People up to the age of 70 who have made non-concessional contributions into their superannuation fund will receive up to a $500 bonus superannuation contribution if their annual income does not exceed $51,021.

The Government will contribute 50¢ for every dollar an individual contributes in non-concessional contributions up to $1000.

The full bonus of $500 will be paid into the individual's superannuation fund if their annual income is less than $36,021.

The maximum entitlement decreases as income exceeds $36,021 and cuts out once income reaches $51,021.

To be eligible, the individual must receive 10 per cent of their annual income from employment or from running a business and must not hold a temporary residency visa.

Being aware of what the proposed changes mean for your super could save you tax and net you some useful bonuses.

Monica Rule is an SMSF specialist and has recently written the sixth edition of The Self Managed Super Handbook — Superannuation Law for SMSFs in Plain English. To find out more, visit monicarule.com.au