



# Quick split will dodge cap shift

**DIY  
SUPER**  
Monica Rule



Self-managed superannuation fund investors have to find new ways to ensure they have enough money to retire thanks to the Federal Government's Budget changes to contribution and tax exemption rules.

Amid worry about the effect of removing the tax exemption for pension accounts in excess of \$1.6 million, we should all remember there is significant scope within superannuation laws for spouse contribution-splitting.

The coalition Government wants to cut the maximum annual concessional contribution that we can make into super by as much as \$10,000 to \$25,000.

One way to ensure more money can be contributed into an SMSF, as well as maintaining a pension account balance of under \$1.6 million, is to split your concessional contributions with your spouse.

Concessional contributions you make into your SMSF can be split into your spouse's superannuation account, provided your spouse is under the preservation age or aged between their preservation age and under 65 and not retired from the workforce.

The maximum amount that can be split, for a financial year, is 85

per cent of the concessional contributions made into your SMSF in that financial year up to your concessional contributions cap (bearing in mind the current limits of \$30,000 or \$35,000).

The split must occur in the financial year immediately after the one in which you made the contributions. This means the concessional contributions that you have made in 2014-15 can be split in the current financial year.

There is only one month left of 2015-16. If you are planning to split your 2014-15 contributions, you need to act quickly. You may also need to use the Australian Taxation Office's contributions splitting form, NAT 15237.

Any contributions you made this financial year can only be split if your entire superannuation entitlement is being withdrawn before the end of the financial year as a rollover or a transfer to another superannuation fund, or paid out as a lump sum superannuation benefit.

You also need to remember that if you split your concessional contributions with your spouse, the full amount of the original contributions count towards your concessional contribution cap. It does not reduce your cap.

You cannot also claim the spouse superannuation contributions tax offset for contributions split to your spouse's superannuation account. You cannot split non-concessional contributions, only concessional contributions.

This still means that you can only contribute up to your concessional contributions limit, which could be as little as \$25,000, if the new limit becomes law.

However, it does mean your spouse is able to receive more than their concessional contributions limit, and it may assist both of you to each maintain pension accounts under \$1.6 million, stopping you from falling foul of rules the Federal Government wants in place for July 1 next year.

Treasurer Scott Morrison wants to put the \$1.6 million limit on the pension account balance someone can have and still enjoy a zero tax rate on investment earnings.

Any pension account in excess of \$1.6 million will need to be transferred back into accumulation phase, where tax is payable at a maximum of 15 per cent on investment earnings. If the excess is not transferred back into the accumulation account, excess contributions tax of 49 per cent may apply on the excess amount as well as any earnings.

Just remember that the \$1.6 million pension account balance is for each SMSF member and not for the entire superannuation fund.

The more members you have in your SMSF, the more that can be contributed and maintained.

Monica Rule is the author of *The Self-Managed Super Handbook - Superannuation Law for Self-Managed Superannuation Funds in Plain English*. [www.monicarule.com.au](http://www.monicarule.com.au).

## Passive or active? You can do both



Kris Walesby

Investors are often confused by the number of ways financial "experts" suggest you should manage your portfolio. These expert views are well intended.

But investors are left thinking that it's either too hard to change investing habits or they embrace some new strategy that sounded good the other day, but that they don't really understand. Neither is the best outcome.

This conundrum is brought into sharp focus with the ongoing debate over choosing active managers or opting for a passive investment approach.

For the uninitiated, this argument centres around whether it's best to favour fund managers you believe can consistently beat "the market" which, for example, might be the manager's benchmark index such as the S&P-ASX 100.

Alternatively, rather than spend time trying to work out who has the ability to outperform, you just select "the market" and passively track that.

Before coming to a conclusion, let's look at the pros and cons in more detail.

An active manager will make choices on which stocks, bonds or other securities they believe will go up more than a fund just tracking a prevailing benchmark, such as the S&P-ASX 100.

They may believe that Aussie bank stocks are overvalued and therefore buy less of them than the benchmark. Or perhaps the manager believes only one bank is good value, or perhaps none at all.

The active manager is making well-investigated selections, with a high degree of conviction in order to achieve the best possible position to produce returns over and above the benchmark.

If you believe in your active manager's ability, then investing with them should make you more money than if you just track the market.

The cons are that for every active manager that outperforms, there's one that underperforms.

Picking active managers that consistently outperform is hard work. Additionally, actively managed funds are normally more expensive than passive funds, on average at least 0.5 per cent more a year.

This doesn't take long to make a big difference.

By contrast, passive funds are the boring but reliable counterparts. There aren't any rigorous debates on which stock to choose over another. Passive managers simply track the benchmark.

In fact, a passive fund manager's entire concern is following the rules of the index, whatever the outcome. Even if everyone expects BHP Billiton to go down 20 per cent, if the index requires the passive manager to buy a certain percentage then they will.

So why even bother with passive funds if that's all that's happening?

Passive funds give you a very simple and cheap way to get the exposure you want. If you want to get access to the US investment market but have no idea who the best active manager is, or you don't believe an active manager can outperform the benchmark, then you should consider a passive fund.

By doing this you can build a low-cost portfolio, with your performance coming from the combination of these funds working together. The caveat? You won't outperform the individual benchmarks.

So, where does that leave us on the debate? The answer is that it's not one or the other. As an investor, you don't need to bind yourself to one view.

If you strongly believe that an active manager will significantly and consistently outperform a benchmark then you'd be foolish not to back your convictions, as long as you've done the research.

There are many high-quality managers available and if you can say, hand on heart, that you believe that they have a high chance of beating the market, you should invest.

However, there's still room in your portfolio for passive too. Where you don't have that certainty about the manager but you're keen on the exposure, that's an ideal situation to take a passive fund and at a fraction of the cost.

So there you have it. A world where you don't need to choose. You can, and probably should, have both.

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