Maximising retirement income

Smart strategies for 2014–2015

It’s really important you make the most
of your super and other savings
in the lead-up to, and during, your retirement.

Contents

Important information

The strategies covered in this booklet assume the super fund is a complying fund (see Glossary). The information and strategies provided are based on our interpretation of relevant superannuation, social security and taxation laws as at 1 July 2014. Because these laws are complex and change frequently, you should obtain advice specific to your own personal circumstances, financial needs and investment objectives, before you decide to implement any of these strategies. The investment returns shown in the case studies are hypothetical examples. They do not reflect historical or future returns of any specific financial products.

MLC is not a registered tax agent. If you wish to rely on the general tax information contained in this guide to determine your personal tax obligations, we recommend that you seek professional advice from a registered tax agent.

Making the most of your super

Many Australians may need to plan for 20 to 30 years without the financial security of regular employment.

So it's really important you consider making strategic decisions in the lead up to, and during your retirement, to help make the most of your super and other savings.

This guide outlines eight potentially powerful strategies that involve using your super to start an income stream investment, such as an account based pension or transition to retirement pension (see page 5).

If you are aged 55 or over, these investments could provide a regular tax effective income to help meet your living expenses. They could also potentially enable you to access (or increase your entitlement to) age pension benefits.

To find out which strategies in this guide suit your needs and circumstances, we recommend you speak to a financial adviser or registered tax agent.

Types of super income streams

If you are aged 55 or over, there are generally two types of income streams that can enable you to convert your super into a regular and tax-effective income.

Key features and benefits

	Transition to retirement pension	Account based pension
What benefits could these investments provide?	A transition to retirement (TTR) pension could provide a tax- effective income to replace your reduced salary if you plan to scale back your working hours (see Strategy 1). Alternatively, if you plan to keep working full-time, you could sacrifice some of your pre-tax salary into your super fund and use the income from the TTR to replace your reduced salary. This could enable you to build a bigger retirement nest egg without reducing your current income (see Strategy 2).	An account based pension could provide you with a tax-effective income to meet your living expenses when you retire. To find out more about how you could benefit from an account based pension, see Strategies 3 and 4. To explore some clever things you could do before starting one of these investments, see Strategy 5.
When can I purchase these investments?	When you have reached your preservation age, which is currently 55 and increases to 60 depending on your date of birth (see FAQs).	When you have met a condition of release (see FAQs on page 23). One of these conditions is that you reach your preservation age (which is currently 55) and permanently retire.
Can I choose my investment strategy?	Yes. You generally have the opportunity to invest your money in shares, property, bonds, cash or a combination of these asset classes. This means your account balance can increase and decrease over time, depending on the performance of your chosen investment strategy.	Yes (as per TTRs).
How much income can I receive each year?	You must elect to receive a minimum income each year, based on your age (see FAQs) and the maximum income you can receive is 10% of the account balance.	As per TTRs, except there is no maximum income limit.
Can I choose my income frequency?	Yes. You can generally choose between monthly, quarterly, half yearly and yearly income payments.	Yes (as per TTRs).
How long will the income payments last?	There is no pre-determined investment term. How long your investment lasts will depend on the level of income you draw , fees and/or charges incurred and the performance of your chosen investment strategy.	As per TTRs.
How are the income payments treated for tax purposes?	The taxable income payments will attract a 15% tax offset between ages 55 and 59 (see FAQs). When you reach age 60, your income payments are tax-free[1] and you don't have to include these amounts in your annual tax return (which could reduce the tax payable on your non-super investments).	As per TTRs.
Can I make lump sum withdrawals?	You can only take a cash lump sum (or transfer the money into an account based pension) when you have met a condition of release – see FAQs. However, you can transfer the money back into the accumulation phase of super at any time.	Yes. There are no restrictions on how much you withdraw or when the withdrawals can be made.

1 Assumes the income stream is commenced from a taxed super fund (see Glossary).

Strategies at a glance

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2 **Grow your super without reducing your income**	People aged 55 or over and still working	• Benefit from a super income stream while still working • Increase your retirement savings	9
3 **Use your super tax-effectively when retiring between ages 55 and 59**	People aged 55 to 59 who plan to retire	• Eliminate lump sum tax • Receive around $49,750 pa[1] in tax-free income	11
4 **Use your super tax-effectively when retiring at age 60 or over**	People aged 60 or over who plan to retire	• Receive unlimited tax-free income payments • Possibly reduce tax on non-super investments	13
5 **Invest the sale proceeds from your business to maximise your retirement**	People aged 55 or over who plan to sell their business and retire	• Receive a tax-effective income • Make your retirement savings last longer	15
6 **Invest non-super money tax-effectively**	People aged 55 or over with money invested outside super	• Receive a tax-effective income • Make your retirement savings last longer	17
7 **Offset Capital Gains Tax when starting an account based pension**	People with money invested outside super who are eligible to make tax-deductible super contributions	• Reduce, or eliminate, capital gains tax on the sale of the investment • Make your retirement savings last even longer	19
8 **Reinvest your super to meet your living expenses**	• People aged 55 to 59 who plan to retire • People aged 55 or over who have non-dependent beneficiaries (such as adult children)	• Increase the income you can receive tax-free each year between ages 55 and 59 • Enable your non-dependent beneficiaries to save tax in the event of your death	21

Strategy 1
Top up your salary when moving into part-time employment

If you're aged 55 or over and plan to scale back your working hours, you may want to invest some of your super in a transition to retirement pension.

What are the benefits?

By using this strategy, you could:

- receive a tax-effective income to replace your reduced salary, and
- pay less tax on investment earnings.

How does the strategy work?

To use this strategy, you need to invest some of your preserved or restricted non-preserved super in a transition to retirement pension (TTR).

The key benefit of doing this is you can receive an income from the TTR to replace the salary you'll forgo when reducing your working hours.

However, you should also keep in mind that you're likely to pay less tax on the income you receive from the TTR than you do on your salary or wages.

This is because the taxable income payments from a TTR attract a 15% tax offset between ages 55 and 59 (see FAQs) and your income payments[1] are tax-free at age 60 or over.

As a result, you'll generally need to draw less income from the TTR to replace your reduced salary.

Another key benefit is that no tax is payable on investment earnings in a TTR, whereas earnings in super are generally taxed at a maximum rate of 15%.

So getting super money into a TTR can also enable you to reduce the tax payable on investment earnings going forward.

There are, however, a range of issues you'll need to consider before starting a TTR. For example:

- you'll need to draw a minimum income each year (see FAQs)
- you can't draw more than 10% of the account balance each year, and
- you can only take a cash lump sum (or purchase a different type of income stream) once you permanently retire, reach age 65 or meet another condition of release (see FAQs).

To find out whether this strategy suits your needs and circumstances, we recommend you speak to a financial adviser or registered tax agent.

1 Assumes the TTR is commenced from taxed super fund (see Glossary).

Strategy 1
Top up your salary when moving into part-time employment

Case study

Mark, aged 58, works full-time, earns a salary of $80,000 pa (or $60,853 after tax) and has $400,000[2] in super. He wants to cut back to a three-day working week so he can spend more time with his grandchildren and play more golf.

While Mark's salary will reduce to $48,000 pa, he doesn't want to compromise his living standard. To help him achieve his goals, his financial adviser suggests he invest his entire super benefit in a TTR and draw an income of $25,416[3] over the next 12 months.

By using this strategy, he'll be able to replace his pay cut of $32,000 and continue to receive an after-tax income of $60,853 pa.

Note: The main reason he only needs to receive $25,416 pa from his TTR to cover his pay cut of $32,000 is because, unlike his salary, the TTR income attracts a 15% tax offset.

In year one	Before strategy	After strategy
Pre-tax salary	$80,000	$48,000
TTR income	Nil	$25,416
Total pre-tax income	$80,000	$74,316
Less tax payable[4]	($19,147)	($12,563)
After-tax income	$60,853	$60,853

Mark could achieve his after-tax income goal if he invests as little as $254,160 in the TTR and draws the maximum income of $25,416. However, by investing his entire super balance of $400,000 in the TTR, he'll benefit more from the fact that no tax is payable on earnings in the pension. He'll also have the flexibility to increase his income payments if he wants to cut back his working hours even more in the future.

2 Mark's super benefit consists entirely of the taxable component (see Glossary).

3 In two years time, when Mark reaches age 60, he'll pay no tax on the TTR income payments. He'll therefore only need to draw an income of $12,853 from his TTR to maintain his after-tax income.

4 The tax payable takes into account the 15% pension tax offset available to account based pensions (see FAQs).

Tips and traps

- Many people on reduced hours will continue to receive Superannuation Guarantee contributions (and possibly Government co-contributions – see FAQs). It's therefore important to check whether your super fund has any minimum account balance requirements before starting a TTR.
- If you have other financial resources (and you plan to reduce your working hours), you may be better off keeping your benefits in super and using this other money to replace your reduced salary.
- If you have met a condition of release (see FAQs) and you don't have other financial resources to draw on, you should consider investing your super in an account based pension, rather than a TTR. This is because an account based pension is not subject to the maximum income and withdrawal restrictions associated with a TTR – see page 5.
- A TTR could also be used to maintain your living standard when making salary sacrifice super contributions (see Strategy 2).

Strategy 2
Grow your super without reducing your income

If you're aged 55 or over and plan to keep working, you may want to sacrifice some of your pre-tax salary into a super fund and use a transition to retirement pension to replace your reduced salary.

What are the benefits?

By using this strategy, you could:

- take advantage of a tax-effective income stream investment while you're still working, and
- build a bigger retirement nest egg without reducing your current income.

How does the strategy work?

This strategy involves:

- arranging with your employer to sacrifice part of your pre-tax salary directly into a super fund
- investing some of your existing preserved or restricted non-preserved super in a transition to retirement (TTR) pension, and
- using the regular payments from the TTR to replace the income you sacrifice into super.

By taking these steps, it's possible to accumulate more money for your retirement, due to a range of potential benefits. For example:

- salary sacrifice super contributions are generally taxed at up to 15%, rather than at marginal rates of up to 49%[1]
- earnings in a TTR are tax-free, whereas earnings in a super fund are generally taxed at a maximum rate of 15%, and
- the taxable income payments from the TTR will attract a 15% pension offset between ages 55 and 59 (see FAQs). Also, when you reach age 60, the TTR income payments are completely tax-free[2] and you don't have to include these amounts in your annual tax return (which could reduce the tax payable on your non-super investments).

While the magnitude of the tax savings will depend on your particular circumstances, combining salary sacrifice with a TTR could be a powerful pre-retirement strategy[3].

To find out whether you could benefit from this strategy, please speak to a financial adviser or registered tax agent.

Note: This strategy could also be used if you're self-employed (see Glossary). However, rather than making salary sacrifice contributions, you need to make personal deductible super contributions.

1 Includes Medicare Levy and Temporary Budget Repair Levy and assumes you have quoted your TFN to your fund.

2 Assumes the TTR is commenced from a taxed super fund (see Glossary).

3 Limits apply as to how much you can contribute to super (see FAQs).

Strategy 2
Grow your super without reducing your income

Case study

Craig, aged 55, earns a salary of $90,000 pa and, on top of this, his employer pays 9.50% Superannuation Guarantee (SG) contributions. He wants to ensure he'll have enough money to retire comfortably in 10 years but, in the meantime, would like to maintain his after-tax income which is currently $66,953 pa.

To help him achieve his goals, Craig's financial adviser recommends he:

- use his existing super balance of $300,000 to start a TTR
- elects to receive income from the TTR of $21,230 in the first year, and
- sacrifices $26,450 into his super fund, in the first year.

In year one	Before strategy	After strategy
Pre-tax salary	$90,000	$63,550
TTR income	Nil	$21,230
Total pre-tax income	$90,000	$84,780
Less tax payable	$23,047	$17,827
After-tax income	$66,953	$66,953
SG contributions	$8,550	$8,550
Salary sacrifice contributions	Nil	$26,450

Once the strategy is established, Craig's adviser makes a number of ongoing recommendations, including that he periodically adjust:

- the amount he contributes into super (so he stays within the concessional contribution cap – see FAQs), and
- the amount he draws from the TTR (so he can continue to achieve his after-tax income goal each year).

Below we show the value this strategy could add over various time periods. For example, if Craig uses this strategy for the next 10 years, he could increase his retirement savings by a further $40,791 without compromising his current living standards

After year:	Value of investments		Value added by strategy
	Before strategy (super only)	After strategy (super and TTR)	
1	$328,235	$333,058	$4,823
5	$469,182	$496,912	$27,730
10	$721,993	$762,784	$40,791

Tips and traps

- When using this strategy, you need to consider the following:
  - To replace salary sacrifice contributions, you need to invest a sufficient amount of super in a TTR.
  - A minimum and maximum income limit apply to a TTR (see FAQs) and lump sum withdrawals can only be made in certain circumstances.
  - If your SG contributions are based on your reduced salary, this strategy could erode your wealth.
- There may be an advantage in splitting some of your salary sacrifice or other taxable super contributions with your spouse (see your financial adviser for more information).
- You will pay tax on the taxable component of your TTR payments at your marginal rates less a 15% pension tax offset between the ages 55 and 60.

Assumptions: Craig's super balance of $300,000 consists entirely of the taxable component. Craig has private patient hospital cover and does not pay Medicare Levy Surcharge. He continues to receive 9.5% SG contributions based on his package of $90,000pa, even after he makes salary sacrifice super contributions. Craig's financial adviser monitors and reduces Craig's salary sacrifice each year as required to remain within his concessional contribution cap. He commenced the strategy on 1 July 2014. Both the super and TTR investment earn a total pre-tax return of 7.7% pa (split 3.3% income and 4.4% growth). Investment income is franked at 30%. Salary is indexed at 3%. From age 60, Craig's adviser also recommends he commute and repurchase the TTR each year and invest any surplus income in super, draw the maximum income, as a non-concessional contribution. All values are after CGT (including discounting). The value added by the strategy is represented in future dollars.

Strategy 3
Use your super tax-effectively when retiring between ages 55 and 59

If you retire between ages 55 and 59, you may want to use your super to start an account based pension, rather than take a cash lump sum.

What are the benefits?

By using this strategy, you could:

- eliminate lump sum tax, and
- receive a tax-effective income to meet your living expenses.

How does the strategy work?

If you receive your super as a lump sum prior to age 60:

- you'll generally have to pay lump sum tax on at least some of your benefit (see FAQs), and
- when you invest the net proceeds outside super, the maximum tax-free income you could receive is $20,542[1] (see table below).

Conversely, if you use your super to start an account based pension:

- lump sum tax isn't payable when you commence the investment
- no tax will be payable on earnings within the fund, and
- you could receive a higher tax-free income in the current and future financial years (as the table below shows).

A financial adviser or registered tax agent can help you determine whether you could benefit from this strategy.

Maximum taxable income that can be received tax-free (pa)

Age	From investments held outside super	From account based pensions
55–59	$20,542[1]	$49,753[3]
60 – Age pension age[2]	$20,542[1]	• Unlimited tax-free[4] income payments • You don't have to include the income payments in your annual tax return (which could reduce the tax payable on your non-super investments)
Age pension age[2] and over		
• singles	$32,279[5]	As above
• per member of couple	$28,974[5]	As above

1 This figure applies in 2014/15 and takes into account the low income tax offset (see FAQs).

2 The age at which you become eligible for the age pension.

3 This figure applies in 2014/15 and takes into account the low income tax offset and 15% pension tax offset (see FAQs) and assumes no other income is received.

4 Assumes the account based pension is commenced from a taxed super fund (see Glossary).

5 These figures apply in 2014/15 and take into account the low income tax offset and Seniors and Pensioners tax offset (see FAQs).

Strategy 3
Use your super tax-effectively when retiring between ages 55 and 59

Case study

Ruth, aged 55, has $500,000 in super consisting entirely of the taxable component (see Glossary).

Her financial adviser explains that if she takes her super as cash, she'll need to pay lump sum tax of $53,550. Conversely, if she uses her super to start an account based pension, no lump sum tax will be payable and she'll get to use her full super benefit to meet her future requirements.

	Receive super as cash lump sum	Start account based pension
Value of super at retirement	$500,000	$500,000
Less low rate cap on the taxable component	($185,000[6])	N/A
Taxable lump sum withdrawn	$315,000	N/A
Less lump sum tax at 17%[7]	($53,550)	N/A
Net amount invested	$446,450	$500,000

Ruth's financial adviser also explains that, when compared to taking a lump sum and investing the net proceeds outside super, starting an account based pension could enable her to pay less tax on her income during her retirement.

As a result, Ruth's adviser estimates she'll use up less of her capital and will have more money left over at the end of 5, 10 and 20 years (in today's dollars).

After year	Value of investments		Value added by starting account based pension
	Invest net lump sum outside super[8]	Start account based pension	
5	$393,943	$507,879	$113,936
10	$306,409	$363,182	$56,773
20	$202,465	$313,045	$110,580

Assumptions: Both the account based pension and the non-super investment generate a pre-tax return of 7.7% pa (split 3.3% income, 4.4% growth, 30% franking on income). Ruth's after-tax income goal ($35,000 in year one) is indexed at 3% pa. Where an income shortfall occurs, capital is withdrawn from the non-super investment or additional income is drawn from the account based pension. Where applicable, age pension benefits are taken into account. Ruth is a homeowner and has no other financial assets that would impact the Assets Test.

Tips and traps

- Capital gains tax (CGT) may also be payable within the fund when super is received as a cash lump sum. However, with some super funds (such as a self-managed fund or a discretionary master trust), no CGT will be payable when you start an account based pension.
- If you need to take some of your super as a cash lump sum, you may want to defer receiving benefits until you reach age 60 when you will be able to make unlimited tax free withdrawals.
- Using your super to start an account based pension could also be tax-effective if you retire at age 60 or over (see Strategy 4).
- Before starting an account based pension, you may want to invest non-super money in super (see Strategy 6).
- There may be some tax and/or estate planning advantages if you receive some of your super as a lump sum and recontribute the amount into super as a personal after-tax contribution prior to starting the account based pension (see Strategy 8).

6 This figure applies in 2014/15.

7 Includes Medicare Levy.

8 These figures reflect any tax that would be payable on unrealised capital gains if the non-super investment was cashed out at the end of each of these periods.

Strategy 4
Use your super tax-effectively when retiring at age 60 or over

If you retire at age 60 or over, you may want to use your super to start an account based pension, rather than take a cash lump sum.

What are the benefits?

By using this strategy, you could:

- receive unlimited tax-free income payments, and
- possibly reduce the tax payable on your non-super investments.

How does the strategy work?

If you receive your super as a lump sum at age 60 or over, unlike people under age 60 (see Strategy 3), you won't be liable for lump sum tax on your benefit[1].

However, when you invest the proceeds outside super, the maximum tax-free income you could receive ranges from $20,542[2] to $32,279[3] pa (see table below).

Conversely, if you use your super to start an account based pension, no tax will be payable on earnings within the fund.

You could also receive a higher tax-free income in the current and future financial years (as the table below shows). This is particularly true if your super benefit is quite large and/or you will receive income from other sources (such as from non-super investments).

To find out whether this strategy suits your needs and circumstances, you should speak to a financial adviser or registered tax agent.

Maximum taxable income that can be received tax-free (pa)		
Age	**From investments held outside super**	**From account based pensions**
60 – Age pension age[4]	$20,542[2]	• Unlimited tax-free[1] income payments • You don't have to include the income payments in your annual tax return (which could reduce the tax payable on your non-super investments)
Age pension age[4] and over		
• singles	$32,279[3]	As above
• per member of couple	$28,974[3]	As above

1 Assumes the lump sum withdrawal is made from a taxed super fund (see Glossary).

2 This figure applies in 2014/15 and takes into account the low income tax offset (see FAQs).

3 These figures apply in 2014/15 and take into account the low income tax offset and Seniors and Pensioners tax offset (see FAQs).

4 The age at which you become eligible for the age pension.

Strategy 4
Use your super tax-effectively when retiring at age 60 or over

Case study

Warren, aged 60, has $500,000 in super and $150,000 in a term deposit outside super. He is about to retire and needs an after-tax income of $50,000 pa to meet his living expenses.

He was considering taking his super as a lump sum and investing outside super in a managed fund. However, his financial adviser explains that if he uses his super to start an account based pension, he'll pay less tax on his income during his retirement.

This is because the income payments from the account based pension will be tax-free. Furthermore, because the account based pension income won't have to be included in his tax return, he'll pay less tax on the income from his term deposit.

As a result, Warren's adviser estimates he'll use up less of his capital and will have more money left over at the end of 5, 10 and 15 years (in today's dollars).

After year:	Value of investments[5]		Value added by starting account based pension
	Take lump sum and invest outside super[6]	Start account based pension	
5	$391,096	$405,903	$14,807
10	$296,110	$322,140	$26,030
15	$215,970	$226,741	$10,771

Assumptions: Warren's super balance of $500,000 consists entirely of the taxable component. Both the account based pension and managed fund generate a pre-tax return of 7.7% pa (split 3.3% income and 4.4% growth). The term deposit provides an income of 6% pa. Warren's after-tax income goal ($50,000 in year one) is indexed at 3% pa. Any income received above Warren's requirement is invested in the managed fund investment. Where applicable, age pension benefits are taken into account. Warren is a homeowner and, apart from his term deposit, he has no other financial assets that would impact the Assets Test.

Tips and traps

- Before starting an account based pension, you may want to invest non-super money in super (see Strategy 6).
- There may be some estate planning advantages if you receive some of your super as a lump sum and recontribute the amount into super as a personal after-tax contribution prior to starting the account based pension (see Strategy 8).

5 Excludes the term deposit.

6 These figures reflect any tax that would be payable on unrealised capital gains if the managed fund was cashed out at the end of each of these periods.

Strategy 5
Invest the sale proceeds from your business to maximise your retirement

If you're selling your business to retire, you may want to use the sale proceeds to make a personal after-tax super contribution and start an account based pension.

What are the benefits?

By using this strategy, you could:

- receive a tax-effective income to meet your living expenses, and
- make your retirement savings last longer.

How does the strategy work?

If you invest the proceeds from the sale of your business outside super, the maximum tax-free income you could receive ranges from $20,542[1] to $32,279[2] pa (see table below).

Conversely, if you use the sale proceeds to make a personal after-tax super contribution and start an account based pension:

- no tax will be payable on earnings within the fund, and
- you could receive a higher tax-free income in the current or future financial years (as the table below shows).

While these tax concessions could make a big difference to your retirement lifestyle, there's a cap on the amount of personal after-tax (and other non-concessional) super contributions you can make without incurring a penalty.

This cap is $180,000 a year, or up to $540,000 in one year if you're under age 65 in that year and meet certain other conditions (see FAQs).

In addition to this cap, it's possible to use certain proceeds from the sale of your business to make personal after-tax super contributions of up to $1,355,000[4] over your lifetime. This is known as the CGT cap (see FAQs).

To find out whether this strategy suits your needs and circumstances, consider speaking to a financial adviser or registered tax agent.

Maximum taxable income that can be received tax-free (pa)

Age	From investments held outside super	From account based pensions
55–59	$20,542[1]	$49,753[5]
60 – Age pension age[4]	$20,542[1]	• Unlimited tax-free[6] income payments • You don't have to include the income payments in your annual tax return (which could reduce the tax payable[8] on your non-super investments)
Age pension age[4] and over		
• singles	$32,279[2]	As above
• per member of couple	$28,974[2]	As above

1 This figure applies in 2014/15 and takes into account the low income tax offset (see FAQs).

2 These figures apply in 2014/15 and take into account the low income tax offset and Seniors and Pensioners tax offset (see FAQs).

3 This figure applies in 2014/15 and may be indexed on 1 July of each year.

4 The age at which you become eligible for the age pension.

5 This figure applies in 2014/15 and takes into account the low income tax offset and 15% pension tax offset (see FAQs) and assumes no other income is received.

6 Assumes the account based pension is commenced from a taxed super fund (see Glossary).

Strategy 5
Invest the sale proceeds from your business to maximise your retirement

Case study

Adrian, aged 60, recently sold his small business, which he had owned for over 15 years and received $1 million after claiming the 15 year CGT exemption (see FAQs).

He's about to retire and needs an after-tax income of $70,000 pa to meet his living expenses. To achieve his goals, his financial adviser suggests he:

- use the sale proceeds of $1 million to make a personal after-tax super contribution (by utilising the CGT cap[7]), and
- start an account based pension.

When compared to investing the sale proceeds outside super, this strategy will enable Adrian to pay less tax on his income during his retirement.

As a result, Adrian's adviser estimates he'll use up less of his capital and will have more money left over at the end of 5, 10 and 20 years (in today's dollars).

After year:	Value of investments		Value added by starting account based pension
	Take lump sum and invest outside super[8]	Invest sale proceeds in super and start account based pension	
5	$802,444	$884,177	$81,733
10	$607,316	$736,530	$129,214
20	$204,964	$308,384	$103,420

Assumptions: Both the account based pension and the non-super investment earn a total pre-tax return of 7.7% pa (split 3.3% income and 4.4% growth). Adrian's after-tax income goal ($70,000 in year one) is indexed at 30% Franking on Income . He is advised by his registered tax agent he is eligible to use any income received above Adrian's requirement is invested in the non-super investment.

7 Claiming $1 million against the CGT cap will give Adrian the scope to utilise the $180,000 or $540,000 cap on non-concessional contributions, should he want to invest other money in super in the current year or future years.

8 These figures reflect any tax that would be payable on unrealised capital gains if the non-super investment was cashed out at the end of each of these periods.

Tips and traps

- If the proceeds from your business exceed the amount you're able to contribute into super in the year of sale, you may be able to make additional super contributions in future years by using the $180,000 or $540,000 cap on non-concessional contributions and/or contribute to super for your spouse.
- If you think you may start another business in the future, you should consider using up the $180,000 or $540,000 cap on non-concessional super contributions before using the CGT cap of $1,355,000[4] that's available on the sale of business assets. This may enable you to use the remaining CGT cap at a later date.
- You need to notify your super fund on or before making the contribution, if you want any personal after-tax contributions to count towards your CGT cap.
- There are a range of other concessions that could be used to reduce capital gains tax when selling business assets (see FAQs).

Strategy 6
Invest non-super money tax-effectively

Prior to starting an account based pension, you may want to cash out a non-super investment and use the money to make a personal after-tax super contribution.

What are the benefits?

By using this strategy, you could:

- receive a tax-effective income to meet your living expenses, and
- make your retirement savings last longer.

How does the strategy work?

If you hold an investment in your own name outside super, the maximum tax-free income you could receive ranges from $20,542[1] to $32,279[2] pa (see table below).

Conversely, if you cash out the investment, make a personal after-tax super contribution[3] and start an account based pension:

- no tax will be payable on earnings within the fund, and
- you could receive a higher tax-free income in the current or future financial years (as the table below shows).

This strategy could be powerful if your money is currently invested in a term deposit or other asset where you don't have to pay capital gains tax (CGT) on the withdrawal.

But even if you have to pay CGT when selling assets like shares, investment properties and managed funds, the tax benefits that account based pensions can provide could more than compensate for your CGT liability over the longer term, as the case study reveals.

To find out whether this strategy suits your needs and circumstances, we recommend you speak to a financial adviser or registered tax agent.

Note: The results from this strategy will depend on a range of factors such as the value of your super and non-super investments, the amount of CGT payable if you cash out your non-super investment, the income you require to meet your living expenses, your age when you retire, how long you live and the returns from your investments.

Maximum taxable income that can be received tax-free (pa)

Age	From investments held outside super	From account based pensions
55–59	$20,542[1]	$49,753[5]
60 – Age pension age[4]	$20,542[1]	• Unlimited tax-free[6] income payments • You don't have to include the income payments in your annual tax return (which could reduce the tax payable on your non-super investments)
Age pension age[4] and over		
• singles	$32,279[2]	As above
• per member of couple	$28,974[2]	As above

1 This figure applies in 2014/15 and takes into account the low income tax offset (see FAQs).

2 These figures apply in 2014/15 and take into account the low income tax offset and Seniors and Pensioners tax offset (see FAQs).

3 Personal after-tax contributions and other non-concessional contributions are subject to a cap (see FAQs).

4 The age at which you become eligible for the age pension.

5 This figure applies in 2014/15 and takes into account the low income tax offset and 15% pension tax offset (see FAQs) and assumes no other income is received.

6 Assumes the account based pension is commenced from a taxed super fund (see Glossary).

Strategy 6
Invest non-super money tax-effectively

Case study

Denise, aged 62, is employed and earns a salary of $80,000 pa. She has $300,000 in super and a non-super investment in her name worth $100,000 (including a taxable capital gain of $25,000[7]).

Denise wants to retire and needs an after-tax income of $40,000 pa to meet her living expenses. To achieve her goals, her financial adviser suggests she:

- sell the non-super investment
- keep $9,750 to pay CGT
- make a personal after-tax super contribution of $90,250, and
- use this money (along with her existing super of $300,000) to start a larger account based pension.

When compared to keeping her non-super investment and starting an account based pension with her existing super benefit of $300,000, this strategy will enable Denise to pay less tax on her income during her retirement.

As a result, Denise's adviser estimates she'll use up less of her capital and will have an extra $37,287 left over at the end of 20 years (in today's dollars).

In other words, in this example, the tax benefits provided by the account based pension will more than compensate for the CGT she'll pay when selling her non-super investment when she retires.

Value of investments after 20 years		
Keep non-super investment and start account based pension with existing super	**Sell non-super investment and start larger account based pension**	**Value added by starting larger account based pension**
$150,781[8]	$188,068	$37,287

Assumptions: Denise's super balance of $300,000 consists entirely of the taxable component. Both the account based pension and the non-super investment earn a total pre-tax return of 7.7% pa (split 3.3% income and 4.4% growth). Denise's after-tax income goal ($40,000 in year one) is indexed at 3% pa. Any income received above Denise's requirement is invested in the non-super investment. Where applicable, age pension benefits are taken into account. Denise is a homeowner and has no other financial assets that would impact the Assets Test.

7 This figure is after the 50% CGT discount (that is available because Denise has owned the shares for more than 12 months) and assumes she has no capital losses to offset her taxable capital gain.

8 This figure reflects any tax that would be payable on unrealised capital gains if the non-super investment was cashed out at the end of 20 years.

Tips and traps

- Making personal after-tax super contributions could enable you to qualify for a Government co-contribution of up to $500 (see FAQs).
- If you use the sale proceeds to make an after-tax super contribution on behalf of your spouse, you may be eligible for a tax offset of up to $540 (see FAQs).
- If you meet certain conditions, you may be able to offset the taxable capital gain on the sale of an asset by claiming a portion of the super contribution as a tax deduction (see Strategy 7).
- There are other ways to reduce CGT on the sale of an asset. These could include using capital losses, selling in a lower income year (eg after you retire) or selling the assets progressively so the gain is spread over more than one financial year.
- If you're a member of a self-managed super fund, or a discretionary master trust, you may be able to transfer certain non-super investments (such as shares and managed funds held in your own name) into super as an in specie contribution (see Glossary), however CGT may be applicable.

Strategy 7
Offset CGT when starting an account based pension

Prior to starting an account based pension, you may want to invest non-super money in super and claim a portion of your contribution as a tax deduction.

What are the benefits?

By using this strategy, you could:

- reduce, or eliminate, capital gains tax (CGT) on the sale of your non-super investment, and
- make your retirement savings last even longer.

How does the strategy work?

Before you start an account based pension, it may be worthwhile cashing out a non-super investment, paying CGT and using the remaining amount to make a personal after-tax super contribution[1].

This is because, as explained in Strategy 6, the tax benefits that an account based pension can provide could more than compensate for your CGT liability over the longer term.

However, if you meet certain conditions, you may want to claim a portion of your super contribution as a tax deduction[2].

By doing this, you could use the tax deduction to offset some (or all) of your taxable capital gain and reduce (or eliminate) your CGT liability.

While the tax-deductible portion of your super contribution will be taxed at 15% in the fund, this strategy could enable you to start a larger account based pension and make your retirement savings last even longer, as the case study reveals.

To use this strategy, you must be eligible to make super contributions (see FAQs) and, in the same financial year, you generally need to receive less than 10% of your income[3] from eligible employment. As a result, this strategy is usually only available if you're self-employed or are under age 65 and recently retired.

To find out if you're eligible to use this strategy and whether you could benefit, you should consider speaking to a financial adviser or registered tax agent.

1 Personal after-tax contributions will count, along with certain other amounts, towards the non-concessional contribution cap (see FAQs).

2 Contributions claimed as a tax deduction will count, along with certain other amounts, towards the concessional contribution cap (see FAQs).

3 Includes assessable income, less business deductions, reportable fringe benefits and reportable employer super contributions.

4 This figure is after the 50% CGT discount (that is available because Nicole has owned the shares for more than 12 months) and assumes she has no capital losses to offset her taxable capital gain.

Strategy 7
Offset CGT when starting an account based pension

Case study

Nicole, aged 62, is self-employed, earns a taxable income of $80,000 pa, has $300,000 in super and has a non-super investment in her name worth $100,000 (including a taxable capital gain of $35,000[4]).

She wants to sell the non-super investment and would like to invest the money in super so she can start a larger account based pension. She could:

- make a personal after-tax super contribution of $86,350 (after keeping $13,650 to pay CGT), and
- use the net sale proceeds, along with her existing super benefit of $300,000, to start an account based pension with $386,350.

However, because she's self-employed, her financial adviser explains she can claim her personal super contributions as a tax deduction[2]. Her adviser therefore suggests that a better approach would be to invest the full sale proceeds of $100,000 in super and claim $35,000 as a tax deduction (which is the maximum amount she can claim without exceeding the concessional contribution cap – see FAQs).

By doing this, she can use the deduction to offset her taxable capital gain of $35,000 and eliminate her CGT liability of $13,650. While the deductible contribution of $35,000 will be taxed at 15% in the super fund, this strategy will enable her to start an account based pension with an additional $8,400.

	Without claiming deduction	With claiming deduction
Value of non-super investment before selling	$100,000	$100,000
Less CGT payable on sale	($13,650)	Nil
Less tax on deductible super contribution	Nil	($5,250)
Net super contribution	$86,350	$94,750
Plus existing super	$300,000	$300,000
Total used to start account based pension	$386,350	$394,750

Assuming Nicole needs an after-tax income of $40,000 pa to meet her living expenses, her financial adviser estimates she'll have an extra $14,107 left over at the end of 20 years (in today's dollars), as a result of using this strategy.

Value of account based pension after 20 years		
Without claiming deduction	**With claiming deduction**	**Value added by claiming deduction**
$172,331	$186,438	$14,107

Assumptions: Nicole's super balance of $300,000 consists entirely of the taxable component. The account based pension earns a total pre-tax return of 7.7% pa (split 3.3% income and 4.4% growth). Nicole's after-tax income goal ($40,000 in year one) is indexed at 3% pa. Any income received above Nicole's requirement is invested in a non-super investment. Where applicable, age pension benefits are taken into account. Nicole is a homeowner and has no other financial assets that would impact the Assets Test.

Tips and traps

- To be eligible to claim the tax deduction, you must provide the trustees of the super fund with a valid deduction notice and receive acknowledgement from the fund before the contribution is used to start an income stream. Time limits and other conditions may apply.
- To reduce the tax payable on other income sources (eg from self-employment) you may want to claim more of your super contribution as a tax deduction, subject to the cap on concessional super contributions (see FAQs).
- Before you make a deductible super contribution, you should consider other strategies that could enable you to reduce your taxable capital gain. These could include using capital losses, selling in a lower income year (eg after you retire) or selling the assets progressively so the gain is spread over more than one financial year.
- While personal after-tax contributions will be received tax-free by all your eligible beneficiaries in the event of your death, personal deductible contributions will form part of the taxable component and are generally taxed at 17% if received by non-dependants for tax purposes (eg financially independent adult children).

Strategy 8
Reinvest your super to meet your living expenses

Prior to starting an account based pension, you might want to cash out and recontribute some of your existing super balance.

What are the benefits?

By using this strategy, you could:

- receive more tax-free income payments between ages 55 and 59[1] to meet your living expenses, and
- enable beneficiaries who are not dependants for tax purposes (such as financially independent adult children) to save tax in the event of your death.

How does the strategy work?

Generally speaking, if you're between ages 55 and 59 and satisfy a condition of release (see FAQs), you could withdraw up to $185,000[2] from the taxable component[3] of your super benefit without paying any tax.

Provided you're eligible to contribute to super (see FAQs), you could then recontribute this amount into your super fund as a personal after-tax contribution prior to starting an account based pension.

Because the personal after-tax contribution will form part of the tax free component of your super benefit, taking these steps could enable you to increase the tax-free income payments you receive from an account based pension between ages 55 and 59[1] (see case study).

But regardless of your age, recontributing super benefits could still be worthwhile from an estate planning perspective.

This is because the recontributed amount will be tax-free in the hands of all eligible beneficiaries. Conversely, when the taxable component is received by non-dependants for tax purposes (such as financially independent adult children), tax is payable at 17%[4].

To find out whether this strategy suits your needs and circumstances, we suggest you speak to a financial adviser or registered tax agent.

1 If you're age 60 or over, you can receive unlimited tax-free lump sum and income payments, provided the account based pension is commenced from a taxed super fund (see Glossary).

2 This figure applies in 2014/15.

3 Where you have tax free and taxable components, each lump sum withdrawal will contain a proportional amount of each component.

4 A higher tax rate may apply if the death benefit includes an insurance component. Includes Medicare levy.

Strategy 8
Reinvest your super to meet your living expenses

Case study

Jane, aged 55, has retired with $350,000 in super (consisting entirely of the taxable component – see Glossary), and she wants to use the money to purchase an account based pension. She receives $10,000 each year in other taxable income and has not received any super benefits in the past.

After speaking to her financial adviser, Jane:

- withdraws 185,000[2] from her super[5] (with no tax payable on this amount), and
- uses the proceeds to make a personal after-tax super contribution[6] before starting an account based pension.

By using this strategy, her account based pension will have a tax free component of $185,000.

Component	Before strategy	After strategy
Taxable	$350,000	$165,000
Tax free	Nil	$185,000[2]
Total	$350,000	$350,000

During the next 12 months, Jane will draw an income from the account based pension of $35,000 (in addition to the $10,000 in income she receives from other sources).

Because her account based pension will now have a significant tax free component, she'll receive $18,500[7] in tax-free income payments and her tax bill will reduce by $967. Her adult children will also be able to receive a greater proportion of her account based pension tax-free, in the event of her death.

Income and tax position (in year one)	Before strategy	After strategy
Account based pension income payments	$35,000	$35,000
Tax-free income payments	(Nil)	$18,500[7]
Other income	$10,000	$10,000
Taxable income	$45,000	$26,500
Tax payable	$1,497	$530

Note: Jane will pay no tax on the income payments from her account based pension when she turns age 60 in 2018/19.

5 Jane can access her super because she is over age 55 and has retired permanently.

6 Because Jane is under age 65, she can make super contributions without having to meet a work test. In this case she will, however, trigger the 'three-year' non-concessional contribution cap (see FAQs).

7 The tax-free income payments are determined by multiplying the tax-free proportion of the account based pension at commencement by the annual income payments received. In this example ($185,000 / $350,000) x $35,000 = $18,500.

Tips and traps

- If you're under age 60, you may want to invest the withdrawn amount in your spouse's super account so they can start an account based pension in their name. This allows you to take advantage of two sets of personal income tax thresholds as a couple. If your spouse is aged 60 or over, they will pay no tax on the income payments. Furthermore, if your spouse will reach age 60 before you, they could take advantage of tax-free income payments earlier than you.
- If your spouse makes a personal after-tax contribution into their super account, they may qualify for a Government co-contribution of up to $500 (see FAQs).
- If you make an after-tax contribution on behalf of your spouse, you may qualify for a spouse offset of up to $540 (see FAQs).
- The low rate cap of $185,000[2] applies to the total of all taxable components that are taken as cash at preservation age and over, and is indexed periodically.

Frequently asked questions

Who can contribute to super?

Subject to the fund rules, the following types of superannuation contributions can be made by you or on your behalf:

Contribution type	Age			
	< 65	65–69	70–74	75 +
Mandatory employer	Yes	Yes	Yes	Yes
Voluntary employer (including salary sacrifice)	Yes	Yes, so long as you've worked at least 40 hours over a consecutive 30 day period during the financial year	Yes, so long as you've worked at least 40 hours over a consecutive 30 day period during the financial year	No
Personal	Yes			No
Spouse	Yes		No	No

An existing super benefit can be rolled over at any time. You will also need to satisfy these conditions if you want to roll over an employment termination payment (if eligible) or invest the proceeds from the sale of a business in super.

How much can you contribute to super?

Assuming you're eligible to make contributions, certain caps apply. These include the non-concessional contribution cap, the concessional contribution cap and the CGT cap. Each of these caps/limits is outlined below.

What is the non-concessional contribution (NCC) cap?

The NCC cap is a cap that applies to certain super contributions that include, but are not limited to, personal after-tax contributions made and spouse contributions received.

The cap is currently $180,000[1] pa. However, if you're under age 65, it's possible to contribute up to $540,000[1], provided your total non-concessional contributions in that financial year, and the following two financial years, don't exceed $540,000.

If the cap is exceeded, excess contributions will be taxed at a penalty rate of 49%. Where penalty tax is payable, you must request your super fund to release sufficient benefits to pay the tax.

Note: Particular contributions are excluded from this cap. The main ones include:

- certain proceeds from the sale of small business assets up to a CGT cap of $1,355,000[1] (see page 24), and
- settlements received for injuries relating to permanent disablement.

What is the concessional contribution (CC) cap?

The CC cap is a cap that applies to certain super contributions that include, but are not limited to:

- all contributions from an employer (including salary sacrifice), and
- personal contributions claimed as a tax deduction (where eligible).

In 2014/15 the concessional contribution cap is:

Age on 30 June 2014	Cap
48 or under	$30,000[2]
49 or over	$35,000[2]

From 1 July 2013, excess concessional contributions are treated as assessable income and taxed at your marginal tax rate. You have the choice to have up to 85% of the excess concessional contribution amount refunded. The excess concessional contribution charge applies due to the timing difference between when you make the contribution and the assessment by the Australian Taxation Office.

If you have the excess concessional contributions refunded, it no longer counts against your cap. If you retain the excess concessional contribution in your super fund, the excess amount counts against the cap and also against the non-concessional contribution cap.

1 This figure applies in 2014/15.

2 The $30,000 cap may be indexed in future years. The higher concessional contribution cap of $35,000.

Frequently asked questions

What is the CGT cap?

The CGT cap is a lifetime limit and is currently $1,355,000[1]. This cap is available to eligible small business owners when making personal after tax super contributions using:

- capital proceeds from the disposal of assets that qualify for the 15 year CGT exemption, even if the disposal didn't result in a capital gain or loss, the asset was a pre-CGT asset or the disposal occurred before the 15-year holding period had elapsed due to permanent incapacity, or
- capital gains from the disposal of assets that qualify for the CGT retirement exemption up to a limit of $500,000 per person.

What CGT concessions are available to small business owners?

Small business owners may have a number of CGT concessions available to them when selling their interest(s) in a business. Some can also take advantage of more than one CGT concession.

To qualify for the concessions, a number of basic conditions need to be met, as well as some conditions that are specific to each of the concessions.

To meet the **basic eligibility conditions:**

- The business must have a turnover of $2 million or less, or the net value of the owner's existing CGT assets (subject to certain exclusions) must not exceed $6 million [the Net Asset Value test]. If the owners have connected or affiliated entities, then the annual turnover or net value of the CGT assets of those entities must be aggregated.
- The assets disposed of must be active assets. These are tangible and intangible assets used, or held ready for use, in the course of carrying on a business (eg land, buildings and goodwill). Shares in Australian resident companies and interests in Australian resident trusts are active assets where at least 80% of the assets owned by these entities are active assets.
- If the asset is a share in a widely held company or an interest in a trust, there must be either a significant individual who is entitled to at least 20% of distributed income or capital from the entity, or the 90% small business participation percentage test needs to be met.

The concessions that may be available (and the specific eligibility conditions that apply to these concessions) include the:

- **15 year CGT exemption** – This is a 100% CGT exemption available to small business owners on the disposal of active assets held for 15 years or more. The assets must have been disposed of for the purpose of retirement and the small business owner must be at least 55 years of age or permanently incapacitated.
- **50% CGT active assets exemption** – This is a 50% exemption available to small business owners on the disposal of active assets.
- **CGT retirement exemption** – This is available to all small business owners up to a maximum lifetime limit of $500,000. If the small business owner is less than 55 years of age, they must invest the exempt amount in a super fund. However, if the small business owner is 55 or over, they could take the proceeds as cash, invest in super or start a super income stream investment such as an account based pension.

In addition to the small business concessions, the **50% general CGT discount** is available to individuals and beneficiaries of trusts on all assets held for more than 12 months. This exemption must be utilised before any other concession is claimed, except for the 15 year exemption.

Frequently asked questions

What are Government co-contributions?

If you make personal after-tax super contributions, the Government may make a co-contribution into your super account up to a maximum of $500 pa. To qualify for a co-contribution:

- your income[3] must be less than $49,488 at least 10% of your income[4] must be attributable to eligible employment or carrying on a business
- you need to make personal after-tax contributions[5] to your super account (salary sacrifice contributions don't qualify)
- you need to lodge an income tax return
- you must be under age 71 at the end of the financial year the personal after-tax super contribution is made, and
- you can't be a temporary resident.

The Australian Taxation Office will determine your entitlement based on the data received from your super fund (usually by 31 October each year for the preceding financial year) and the information contained in your tax return. As a result, there can be a time lag between when you make your personal after-tax contribution and when the Government pays the co-contribution.

Note: Some funds or superannuation interests may not be able to receive co-contributions. This includes unfunded public sector schemes, defined benefit interests, traditional policies (such as endowment and whole of life) and insurance only superannuation interests.

The table below outlines the co-contribution you may be entitled to receive.

Income[3]	Personal after-tax contribution[5]	Co-contribution available
$34,488 or less	Any amount	Personal contribution x 0.5 (max. $500)
$33,516 – $49,488	$0 – $1,000	An amount equal to the lesser of: • personal contribution, or • $500 – [0.03333 x (income[3] – $34,488)]
$34,489 – $49,488	$1,000 or more	$500 – [0.03333 x (income[3] – 34,488)]
$49,489 or more	Any amount	Nil

What is the spouse contributions tax offset?

The spouse offset is a tax offset of up to $540 that may be available to you if you make after-tax super contributions[6] on behalf of your low-income or non-working spouse. The amount of the tax offset will depend on your spouse's income[3] as follows:

Spouse's income[3]	Contribution amount[6]	You can claim a tax offset of:
$10,800 or less	$0 – $3,000	18% of contributions
$10,800 or less	$3,000 or more	$540 maximum
$10,801 – $13,799	Any amount	An amount equal to the lesser of: • spouse contribution x 18%, or • [$3,000 – (spouse's income[3] – $10,800)] x 18%
$13,800 or more	Any amount	Nil

A spouse under the relevant legislation includes a married or de facto spouse, but does not include a partner (married or de facto) who lives in a different home. The receiving spouse must also be under age 65 or, if between 65 and 70, must have worked at least 40 hours over 30 consecutive days during the financial year.

3 Includes assessable income, reportable fringe benefits and reportable employer super contributions less allowable business deductions.

4 The 10% test is income as per above definition however is not reduced by allowable business deductions.

5 The personal after-tax contributions (but not Government co-contributions) will count towards the non-concessional contribution cap outlined on page 23.

6 The after-tax super contributions received by your spouse will count towards their non-concessional contribution cap (see page 23).

Frequently asked questions

When can you access your super?

Your super can generally be accessed when you meet one of the following **Conditions of release:**

- retiring after reaching your preservation age (55 to 60 – see next column)
- leaving your employer after age 60
- reaching age 65
- permanent incapacity (specific requirements apply)
- a terminal medical condition where two medical practitioners (one a specialist) certify that your condition is likely to result in death within 12 months
- death
- severe financial hardship (the amount is restricted and you must have received Federal Government income support for six months consecutively, or nine months cumulatively if aged 55 or over and not gainfully employed at the date of application)
- compassionate grounds (must be approved by the Department of Human Services)
- upon permanent departure from Australia for certain temporary residents holding a specific class of visa
- leaving the service of your employer who has also contributed into your super fund—restricted non-preserved benefits only unless these amounts are from an untaxed source. A transition to retirement pension (see page 5) may also be commenced with preserved and restricted non-preserved benefits if you have reached your preservation age (see below).

Note: You can access unrestricted non-preserved benefits at any time.

What are the preservation ages?

The age at which you can withdraw your super depends on when you were born. The table below shows the current preservation ages.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
1 July 1964 or after	60

How long can I keep my benefits in super?

You can keep your benefits in the accumulation phase of a super fund for as long as you like.

What tax is payable when a super benefit is received as a lump sum?

The table below summarises the tax payable on a lump sum benefit paid from a taxed super fund, including in the event of total and permanent disability but not death (see below).

Component	Tax payable
Tax free	Nil
Taxable:	
• If under 55	• 22%[7]
• 55 to 59	• 17%[7] on amounts over $185,000[8]
• 60 or over	• Nil[9]

Note: Where you have a tax free and a taxable component, each lump sum withdrawal will include both components in the same proportion as these components make up the total interest immediately before the withdrawal.

If a super benefit (including insurance proceeds) is paid as a lump sum in the event of a fund member's death:

- unlimited tax-free amounts can be received by dependants for tax purposes[10], and
- the table below summarises the tax payable on the various components by non-dependants for tax purposes.

Component	Tax payable by non-dependants
Tax free	Nil
Taxable:	
• Taxed element	• 17%[7]
• Untaxed element	• 32%[7]

7 Includes Medicare Levy.

8 This low rate cap applies to the total of all taxable components that are taken as cash between preservation age and age 60. This rate applies to 2014/15 financial year and may be indexed in future years.

9 Lump sum payments received at age 60 or over don't need to be included in your tax return.

10 Includes a spouse (legally married or de facto including same sex), a former spouse, minor children, a financial dependant and a person in an interdependency relationship with the deceased.

Frequently asked questions

How are earnings in a pension taxed?

No tax is generally payable in an account based pension or transition to retirement pension on earnings from assets used to fund the income payments, including interest, dividends, rent and realised capital gains.

How are pension income payments determined?

With account based pensions and transition to retirement pensions, you must elect to receive at least the minimum income each year that is calculated by multiplying the account balance at the start (and on 1 July each year) by a percentage that depends on your age—see table below.

With transition to retirement pensions (only), there is also a maximum income that you can elect to receive each year, which is 10% of the account balance at the start (and on 1 July each year).

Age at start of pension (and 1 July each year)	2014/15
Under 65	4%
65 – 74	5%
75 – 79	6%
80 – 84	7%
85 –89	9%
90 – 94	11%
95 +	14%

How much tax is payable on pension income payments?

The tax payable on the regular income payments from an account based pension or transition to retirement pension commenced from a taxed super fund (see Glossary) is below.

Component	Tax payable
Tax free	Nil
Taxable:	
• If under 55	• Taxed at marginal rates
• If aged 55 to 59[11]	• Taxed at marginal rates, less a 15% pension tax offset (see page 23)
• If aged 60+	• Nil[12]

Note: Where you have a tax free and a taxable component, each income payment (or lump sum withdrawal) will include both components in the same proportion these components make up the amount used to purchase the investment.

What are the current marginal tax rates?

The following table summarises the tax rates that apply to residents in 2014/15:

Tax income range	Tax payable
$0 – $18,200	Nil
$18,201 – $37,000	19%[13] on amount over $18,200
$37,001 – $80,000	$3,572 + 32.5%[13] on amount over $37,000
$80,001 – $180,000	$17,547 + 37%[13] on amount over $80,000
Over $180,001	$54,547 + 47%[13] on amount over $180,001

11 The same tax treatment applies to account based pensions commenced due to disability.

12 Income payments received at age 60 or over don't need to be included in your tax return.

13 These rates don't include the Medicare levy. The Budget Repaid Levy of 2% is included where taxable income exceeds $180,000.

Frequently asked questions

What is the Medicare levy?

The Medicare levy is 2% that is payable on the whole of your taxable income on top of normal marginal tax rates. In 2014/15, if you earn less than $20,542 pa ($34,367 pa combined for couples) you're exempt from the levy. If you earn slightly more than these limits, the levy is phased in.

An additional surcharge between 1%–1.5% applies to singles with an income in 2014/15 over $90,000 pa (or couples with a combined income over $180,000 pa) who don't have private health insurance. If applicable, this Medicare levy surcharge will be payable on top of the base Medicare levy of 2%.

What tax offsets may be available?

1. Pension tax offset

The taxable income payments from an account based pension and transition to retirement pension attract a 15% pension offset between preservation age and 59.

Note: The same tax treatment applies to account based pensions commenced by you (in the event of disability) or certain eligible beneficiaries (on your death).

Example

If you're 59 and receive $30,000 in taxable income payments from an account based pension, you may be entitled to a tax offset of $4,500, which could be used to reduce the amount of tax you're required to pay, (ie $30,000 x 15% = $4,500).

2. Senior and Pensioners tax offset

This offset is available if you're over Age or Service Pension Age. The maximum tax offset is reduced by 12.5 cents for each dollar of taxable income exceeding the relevant shade-out threshold (see below).

	Singles[14]	Couples (each)[14]
Maximum offset	$2,230	$1,602
Shade-out threshold	$32,279	$28,974
Upper threshold	$50,119	$41,790

Example

If you're single with a taxable income of $40,000 pa, you may be entitled to a tax offset of $1,265, ie $2,230 less 12.5% of ($40,000 – $32,279) = $1,279.

3. Mature age worker tax offset

This offset (with a maximum of $500) is available if you're born before 1 July 1957 and earn taxable income from personal exertion, including salary and wages, business income or personal services income. Taxable income from these sources also needs to be within the following limits in 2014/15:

Taxable income[15]	Offset available
$0 – $10,000	5% of taxable income[16]
$10,001 – $53,000	$500
$53,001 – $63,000	$500 – [0.05 x (taxable income[16] – $53,000)]
$63,001 or more	Nil

Example

If you're 55 years old, with a taxable income from personal exertion of $57,000 pa, you may be entitled to a tax offset of $300, ie $500 less 5% of ($57,000 – $53,000) = $300.

4.Low income tax offset

A tax offset of $445 is available if your taxable income is $37,000 pa or less. The tax offset is reduced by 15 cents for each dollar of taxable income above $37,000 pa, and cuts out at $66,667 pa.

Example

If you're single with a taxable income of $50,000 pa, you may be entitled to a tax offset of $250, ie $445 less 15% of ($50,000 – $37,000) = $250.

At what age may you be eligible for age pension benefits?

The qualifying ages to be eligible to claim an age pension is currently 65, it will increase depending on your date of birth as follows:

Date of birth	Qualifying age
1/7/1952 – 31/12/1953	65.5
1/1/1954 – 30/6/1955	66
1/7/1955 – 31/12/1956	66.5
1/1/1957 onwards	67

Note: Women born prior to 1 January 1947 have already reached the qualifying age for age pension.

14 These figures apply in 2014/15.

15 It is proposed to abolish this offset from July 2014.

16 From personal exertion.

Glossary

A

Account based pension – An account in which you can invest your super savings in exchange for a regular and tax-effective income.

Assessable income – income, including capital gains, you receive before deductions.

Assets test – A test on your assets to determine your social security entitlements. Under this test you can have a certain amount of assets before your full entitlement to social security is reduced or cuts out. The level at which your pension begins to reduce varies depending on whether you're single or married and whether you own your home.

C

Capital Gains Tax (CGT) – A tax on the growth in the value of assets, generally assessable when the gain is realised. If the assets have been held by an individual, trust or super fund for more than 12 months, the capital gain generally receives concessional treatment.

Concessional contribution cap – a cap that applies to certain super contributions. These include, but are not limited to:

- contributions from an employer (including salaray sacrifice)
- personal contributions claimed as a tax deduction (where eligible).

In 2014/15 the concessional contribution cap is:

Age on 30 June 2014	Cap
48 or under	\$30,000[1]
49 or over	\$35,000[1]

The \$30,000 cap may be indexed in future years however the higher cap is unindexed. The higher concessional contribution cap applies to individuals aged 49 or over on 30 June 2014. This cap is unindexed.

Since 1 July 2013, excess concessional contributions are treated as assessable income and taxed at your marginal tax rate. You have the choice to have up to 85% of excess concessional contribution amount refunded, after allowing for 15% concessional contributions tax already paid by the super fund. The excess concessional contribution charge applies due to the timing difference between when you make the contribution and the assessment by the Australian Taxation Office.

If you have the excess concessional contributions refunded, it no longer counts against your cap. If you retain the excess concessional contribution in your super fund, the excess amount counts against the cap and also against the non-concessional contribution cap.

Condition of release – circumstance upon which you can withdraw your super benefits (see FAQs).

D

Dependant for superannuation purposes – those people eligible to receive a benefit directly from a super fund in the event of your death. Includes a spouse (legally married or de facto including same sex), a child of any age, a financial dependant and a person that was in an interdependency relationship with the deceased just prior to their death.

Dependant for tax purposes – those people eligible to receive unlimited tax-free lump sum payments from a super fund in the event of your death. Includes a spouse (legally married or de facto including same sex), a former spouse, minor children, a financial dependant and a person that was in an interdependency relationship with the deceased just prior to their death.

Discretionary master trust – a type of super fund offering similar investment flexibility to a self-managed fund without the burden of having to be a trustee.

E

Eligible employment – broadly, any work that classifies you as an employee for Superannuation Guarantee purposes.

Employment termination payment (ETP) – a payment made by an employer to an employee on termination of employment. Examples can include a redundancy payment exceeding the tax-free amount, accrued sick leave or an ex gratia payment.

F

Fringe benefit – a benefit provided to an employee by an employer in respect of employment. Super contributions made by an employer to complying super fund are excluded from Fringe Benefit Tax (FBT) and is tax payable.

1 The \$30,000 cap may be indexed in future years. The higher concessional contribution cap of \$35,000 is unindexed.

Glossary

I

Income stream – an investment that provides a regular and tax-effective income, such as an account based pension or transition to retirement pension.

Income Test – a test on your total income to determine your entitlement to social security benefits. As with the Assets Test, the amount of income allowed before your benefits are reduced depends on factors such as your marital status.

In specie contribution – the contribution of an asset into super rather than cash. It's achieved by transferring ownership of the asset to the super fund. Only certain types of assets can be transferred.

M

Managed fund – an investment where your non-super savings are pooled with other investors' savings to form a large fund, which is professionally managed by investment experts.

Mandatory employer contributions – super contributions an employer is required to make on your behalf by law. Includes Superannuation Guarantee (SG) contributions and employer contributions required under an industrial award or certified agreement.

Marginal tax rate – the stepped rate of tax you pay on your taxable income (see FAQs).

N

Non-cconcessional contribution cap – a cap that applies to certain super contributions. These include, but are not limited to, personal after-tax contributions made and spouse contributions received. In 2014/15, the cap is $180,000. However, if you are under age 65, it may be possible to contribute up to $540,000 in 2014/15. If the cap is exceeded, excess contributions will be subject to a tax penalty.

P

Pension offset – a tax offset of 15% of the taxable income payments received from an account based pension or transition to retirement pension between preservation age and 59. The offset is also available at a younger age if an account based pension is commenced by you (in the event of disability) or certain eligible beneficiaries (on your death).

Personal after-tax super contribution – a super contribution made by you from your after-tax pay or savings.

Preservation age – the age at which you can withdraw your preserved super benefits – between 55 and 60, depending on your date of birth subject to satisfying the other requirements of the retirement condition of release (see FAQs).

Preserved benefits – benefits that must be kept in the super system and cannot be withdrawn until you meet a condition of release (see page 26).

R

Reportable employer super contributions – certain super contributions (such as salary sacrifice) that must be identified by an employer and included on an employee's Payment Summary.

Restricted non-preserved benefits – benefits that can be withdrawn on termination of employment (provided your employer has contributed into the fund). These benefits are also available if you meet another condition of release (see FAQs).

S

Salary sacrifice – an arrangement made with an employer where you forgo part of your pre-tax salary in exchange for receiving certain benefits (eg super contributions).

Self-employed – to qualify as self-employed, you need to receive less than 10% of your assessable income, reportable fringe benefits and reportable employer super contributions from eligible employment.

Self-managed super fund (SMSF) – a super fund with fewer than five members, where generally all members are trustees of the fund and all the trustees are members.

Spouse contribution – an after-tax super contribution made on behalf of an eligible spouse (see FAQs).

Glossary

Superannuation Guarantee (SG) contributions – the minimum super contributions an employer is required to make on behalf of eligible employees is 9.5% of ordinary times earnings in (2014/15) up to the maximum super contribution base limit of $49,430 (2014/15) per quarter.

Super fund – a fund that provides benefits generally for retirement purposes. Complying super funds are those that satisfy the conditions specified for complying funds under the Superannuation Industry (Supervision) Act. Complying super funds are concessionally taxed.

T

Tax deduction – an amount that is deducted from your assessable income before tax is calculated.

Tax free component – that part of a super benefit that is received tax-free.

Tax offset – an amount deducted from the actual tax you have to pay (eg the pension tax offset).

Taxable component – the remainder of a super benefit after allowing for the tax free component. The amount of tax payable on the taxable component may depend on the manner in which the benefit is received (ie lump sum or income stream), the age of the recipient, the dependency status of the beneficiary (death benefits only) and the size of the benefit.

Taxable income – income (including capital gains) you receive after allowing for tax deductions.

Taxed super fund – a super fund that pays tax on contributions or earnings in accordance with the standard superannuation tax provisions.

Transition to retirement (TTR) pension – an investment that can be purchased with preserved or restricted non-preserved super benefits after reaching your preservation age (see FAQs).

U

Unrestricted non-preserved benefits – benefits that have previously met a condition of release and therefore can be withdrawn from a super fund at any time.

V

Voluntary employer contributions – include salary sacrifice contributions and contributions made by an employer that are discretionary.

Your notes

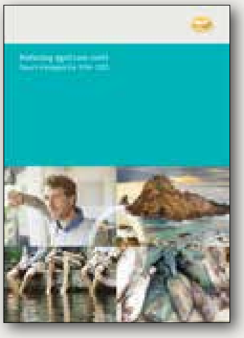
MLC has a range of other smart strategy guides

Ask your financial adviser for more details.

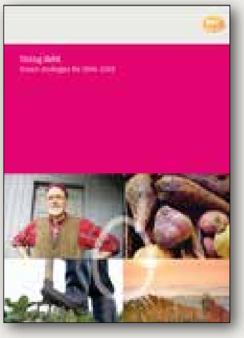
Smart strategies for protecting you and your family

Smart strategies for your super

Smart strategies for protecting business owners



Smart strategies for reducing aged care costs



Smart strategies for using debt

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Important information and disclaimer

The information contained in this guide is based on our interpretation of relevant superannuation, social security and taxation laws as at 1 July 2014. Because these laws are complex and change frequently, you should obtain advice specific to your own personal circumstances, financial needs and investment objectives. The investment returns shown in the case studies are hypothetical examples only. They do notreflect the historical or future returns of any specific financial products.

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