Running your own super fund

Smart strategies for 2014–2015

Self managed super is the largest and fastest growing super sector in Australia.

Over 6,000 new funds are established every month, adding to the current total of over 534,176[1].

1 As at June 2014. Source: ATO SMSF Statistical Report.

Contents

Investment freedom

A major reason for the growing popularity of self managed super funds (SMSFs) is the level of investment freedom they offer.

With an SMSF you can create your own investment strategy and select from a broader range of investments.

Other advantages include potentially greater tax and estate planning flexibility and the opportunity to set up one fund for up to four people. In this booklet, we outline some powerful strategies you could use when setting up and running an SMSF.

A financial adviser can help you decide whether an SMSF is the right super solution for you.

They can also help you meet your compliance obligations and maximise your opportunities.

Other smart super strategies

There are some other strategies you could use to grow your super if you have an SMSF or use another super arrangement.

These are outlined in our 'Make your super count' guide. If you'd like a copy, you could speak to your financial adviser or call MLC on **132 652**.

Super on your terms

You can have greater control, choice and flexibility with an SMSF.

Why self managed super?

SMSFs can offer a number of features and benefits generally not available with other super arrangements.

More investment control

You can establish your own investment strategy and directly control where and how your super is invested. You've also got the flexibility to create an investment strategy that addresses the combined or unique needs of all fund members.

More investment choice

You can select from a wider range of investments including:

- all listed shares
- some unlisted shares
- residential and business property, and
- collectables such as artwork, stamps and coins.

One fund for the family

If you set up a fund for yourself and up to three[1] family members, you could:

- consolidate your super balances
- invest in assets of higher value
- achieve greater estate planning flexibility, and
- reduce costs.

Borrowing to make larger investments

SMSFs can buy assets such as shares and property by using cash in the fund and borrowing the rest. This can enable the fund to acquire assets it currently doesn't have enough money to purchase outright.

Tax savings

With SMSFs you can:

- take greater control over the timing of tax events, such as when capital gains and losses on assets are realised
- transfer certain assets directly into your fund by making 'in specie' contributions, where investment earnings will be concessionally taxed, and
- use your super to start a pension potentially without triggering capital gains tax.

Also, if a member dies or becomes disabled, the fund can claim the future service element of the benefit as a tax deduction and offset current and future fund tax liabilities.

Greater estate planning certainty and flexibility

You can nominate which of your 'dependants for superannuation purposes'[2] you'd like to receive your benefit in the event of your death without having to meet some of the constraints that apply to other super arrangements.

1 The maximum number of members in an SMSF is four.

2 A 'dependant for superannuation purposes' includes a legally married or de facto spouse (including same sex), child of any age, financial dependant, and interdependent person of the deceased. It is also possible to pay the legal representative of the deceased.

Is an SMSF right for you?

While running an SMSF can give you greater control of your super and retirement savings, it's a big commitment.

All members are generally required to be fund trustees and vice versa. This means you are responsible for meeting a range of legal and administrative obligations and penalties may apply if you don't perform your duties.

Also, to make running an SMSF a cost effective exercise, you and your fellow members will typically need upwards of $200,000 in total in your SMSF.

Advice and support

A financial adviser is best set to help you navigate through the complexities of an SMSF and decide whether it's right for you.

They'll be able to help:

- develop and implement an investment strategy for the fund
- select investments to match that strategy
- determine the right insurance
- implement a tax-effective pension plan, and
- consider your estate planning options.

Many financial advisers may also recommend using a comprehensive SMSF administration service. These services can facilitate the legal, accounting, auditing and other support you'll need to run your fund and meet your compliance obligations.

For more information

To find out more about setting up an SMSF and the support services you may need, please speak to a financial adviser.

Other super benefits

Just like other super funds, if you have an SMSF:

- you may be able to make contributions from your pre-tax salary or claim your contributions as a tax deduction[3]
- investment earnings are generally taxed at a maximum rate of 15%
- there's no tax on investment earnings if you use your super to start a pension investment[4]
- you won't pay tax on lump sum and pension payments received at age 60 or over[5], and
- your fund can arrange cost-effective Life and Total and Permanent Disability insurance.

3 To be eligible to claim your super contributions as a tax deduction, you will need to earn less than 10% of your assessable income, reportable fringe benefits and reportable employer super contributions from eligible employment and meet a range of other conditions.

4 A pension investment can generally only be commenced when you reach your preservation age (currently 55) or over.

5 Applies to the pension and/or lump sums received from a taxed super fund. An SMSF is generally a taxed super fund.

Strategies at a glance

Strategy		Suitable for	Potential key benefits	Page
1	**Personalise your investment strategy**	People who want more say over where their super is invested	• Take more control of your super • Tailor the investments to meet the collective or unique needs of all fund members	8
2	**Purchase property tax-effectively**	People who want to invest their super in a residential or business property	• Increase your net wealth, as rental income and capital gains are taxed at the super fund tax rate	9
3	**Keep it all in the family**	Groups of up to four people (usually family members)	• Increase your fund's buying power • Have more estate planning flexibility • Reduce costs	10
4	**Grow your super with borrowed money**	People who want to use borrowed money to acquire certain investments in super	• Make a larger investment • Accumulate more wealth for your retirement	11
5	**Claim death and disability benefits as a tax deduction**	SMSFs where a member dies or suffers a disability	• Offset current and future year tax liabilities • In some circumstances, possibly lead to the fund not having to pay tax for many years	12

Note: these strategies assume the super fund in a complying super fund (see Glossary)

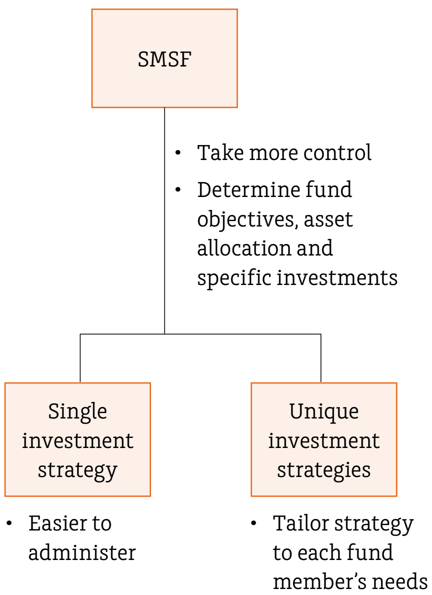
Strategy 1
Personalise your investment strategy

SMSFs give you more control over where and how your super is invested.

How this strategy works

One of the key benefits of running an SMSF is you can establish your own investment strategy and make all the key investment decisions. These include:

- setting the fund's investment objectives
- determining how much to invest in the different asset classes such as shares, property, cash and fixed interest, and
- selecting the specific investments you want the fund to hold.



You can also implement:

- different investment strategies for each fund member, which may be appropriate if the members have significantly different ages, super balances or risk tolerances, or
- one investment strategy that takes into account the collective needs of all members, which will be easier to administer.

For more information

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

Strategy tips

- With SMSFs, establishing and reviewing an investment strategy is more than just a benefit; it's a legal requirement (see FAQs). A financial adviser can help you develop an investment strategy that suits your needs and circumstances.
- SMSFs can invest directly in a broader range of assets, such as residential or business property (see Strategy 2).
- If your adult children are fund members, establishing a unique investment strategy for them can address their different investment needs, while still maximising the benefits of super for your family (see Strategy 3).

Strategy 2
Purchase property tax-effectively

With SMSFs you can invest your super directly in property and benefit from some powerful tax concessions.

How this strategy works

Another great benefit of SMSFs is you can invest your super directly in residential or business property. This option is usually not available with other super arrangements.

It could also be more tax-effective to purchase a property through an SMSF than buy it outside super.

This is because rental income is taxed in super at a maximum rate of 15% and is potentially tax-free if your fund is paying you a pension.

Also, when the property is sold, capital gains are taxed at 10%, if the investment has been owned for 12 months or more, and are potentially tax-free if a pension has started.

The table below compares the tax treatment of income and capital gains with other commonly used property ownership options.

For more information

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

Tax payable on:	Property owned by:			
	Individual	Company	Super fund[1]	Super pension[1]
Rental income	Up to 47%[2]	30%	Up to 15%	Nil
Capital gains	Up to 23.5%[2,3]	30%	Up to 10%[4]	Nil

Strategy tips

- SMSFs can buy a business property from a related party[5], but not a residential property.
- It's also possible to transfer ownership of a business property into an SMSF by making what's known as an 'in specie' contribution. Where this is done, make sure you don't exceed your contribution caps (see FAQs).
- Buying a property needs to be consistent with the fund's investment strategy (see FAQs).
- You can increase your fund's buying power by adding fund members (see Strategy 3) or borrowing money (see Strategy 4).

1 This concessional tax treatment generally also applies to income and capital gains from other investments held in super.

2 Excludes Medicare levy.

3 Assumes the asset has been held for 12 months or more and the 50% discount for individual taxpayers has been applied.

4 Assumes the asset has been held for 12 months or more and the 1/3 discount for super funds has been applied.

5 A related party generally includes fund members, their family and partners, and related companies and trusts.

Strategy 3
Keep it all in the family

Adding family members to your SMSF can increase your fund's buying power and provide more estate planning flexibility.

How this strategy works

You can have up to four members in an SMSF. By adding family members, such as adult children, you could increase the fund's balance considerably. This could allow you to:

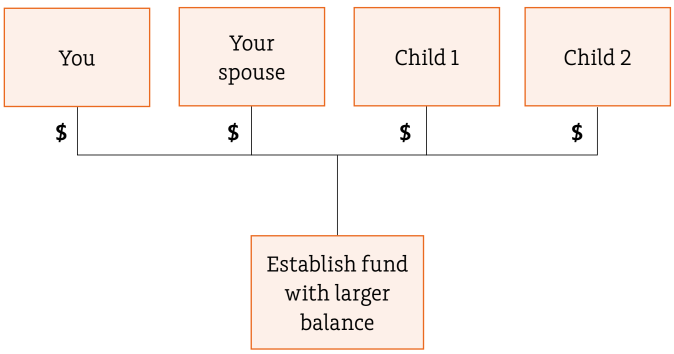
- purchase assets you don't have sufficient money to buy individually, such as residential or business property (see Strategy 2), and
- make some significant cost savings, as many of the costs involved when setting up and running an SMSF are a fixed amount (ie they don't increase if the fund balance does).

Having one fund for the family can also:

- give you more flexibility to decide which assets are sold to pay a death benefit if a fund member dies, and
- make it easier to transfer your wealth tax-effectively from one generation to the next.

For more information

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



Strategy tips

- Before setting up an SMSF with other family members, consider if you'd be happy to share fund decisions.
- If your SMSF still doesn't have enough money to acquire an asset after consolidating super balances, the fund may want to borrow money (see Strategy 4).
- Adding fund members could also help them take advantage of any tax deduction claimed for benefits paid if another fund member dies or becomes disabled (see Strategy 5).

Strategy 4
Grow your super with borrowed money

SMSFs can borrow to make a larger investment and grow your retirement savings.

How this strategy works

SMSFs can borrow to buy assets such as shares and property. For example, if you're a business owner, your SMSF could purchase[1] your business property using cash already in the fund and borrow the rest.

There are, however, some significant differences between borrowing in super and borrowing in your own name.

As a general rule, borrowing in super can be more tax-effective if the income from the investment exceeds the loan interest and certain other expenses (positively geared). This is because the excess income will be taxed at a maximum rate of 15% in the super fund, rather than your marginal tax rate (see Glossary).

Conversely, negatively geared investments can be more tax-effective if held in your own name. In this scenario, you'll receive more value for the excess tax deductions than a super fund would if your marginal tax rate exceeds 15%.

But even if an investment is negatively geared at the outset, borrowing in super may still be a better option. This is because:

- negatively geared investments can become positively geared over time, and
- regardless of whether the investment is positively or negatively geared, less capital gains tax will generally be paid on the sale of the investment if it's held in a super fund (see Strategy 2).

1 The rules require the property to be held through a security trust under the limited recourse borrowing arrangement.

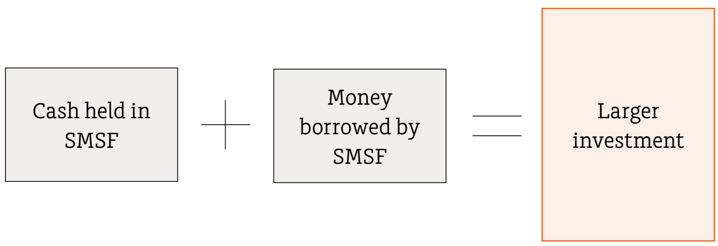
For more information

To find out if this strategy is right for you, speak to a financial adviser. and a registered tax agent

Strategy tips

- This strategy could also be used to acquire a residential property, listed shares or other 'single acquirable assets' (see FAQs). Restrictions can apply if certain assets are acquired from a related party[2].
- There are a range of conditions that need to be met when borrowing in super (see FAQs).
- You'll need to make sure the fund has sufficient cashflow to meet the loan repayments.
- If additional contributions are needed to fund the loan, make sure you don't exceed your contribution caps (see FAQs).
- Check the trust deed and investment strategy to make sure they both allow borrowing to purchase assets.

2 A related party includes fund members, their family and partners, and related companies and trusts.



Strategy 5
Claim death and disability benefits as a tax deduction

If a member dies or becomes disabled before age 65, your SMSF may want to claim a portion of the death or disability benefit as a tax deduction.

How this strategy works

All super funds can generally claim a tax deduction for death and disability[1] insurance premiums paid on a members behalf.

However, if an SMSF member's employment is terminated due to death or disability before they reach the usual retirement age of 65, the SMSF can elect to claim a tax deduction for the 'future service element'[2] (FSE) of the death or disability benefit instead.

This strategy may benefit SMSFs where it's anticipated the FSE of the death or disability benefit will be greater than the sum of all future death and disability insurance premiums payable for all members.

When claiming an FSE deduction:

- the amount can be used to offset the SMSF tax liabilities in the year of death or disability, and
- any unused tax deduction can be carried forward to offset tax liabilities in future years, including those relating to new members, until the deduction is exhausted.

If the FSE deduction is large enough, the SMSF may not have to pay tax for many years.

This can particularly benefit SMSFs where family members such as adult children can be added to make the most of this tax concession.

1 Disability means permanent disability, as well as temporary disability where the member is unable to perform their normal duties.

2 The future service element is determined by a formula and is only available if the member dies or becomes disabled before reaching the last retirement date, which is usually age 65.

For more information

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

Strategy tips

- The FSE deduction can be claimed regardless of whether the death or disability benefit includes an amount funded from an insurance policy.
- The FSE deduction can't be claimed if the person who dies or becomes disabled was not employed.
- The fund must elect to claim the FSE deduction before lodging its tax return for the income year the death or disability occurs. Once the election is made, it's generally irrevocable and the fund can't claim a deduction for insurance premiums paid in the same or a future financial year.
- While super funds may be able to make an 'anti-detriment' payment when a member dies, this option is usually not practically available in SMSFs.
- The FSE deduction can be claimed whether a death benefit lump sum or death benefit income stream is payable on the death of the member.

Frequently Asked Questions

Is an SMSF right for you?

Some important issues to consider before setting up an SMSF include:

1. **Do you have enough time, knowledge and skills to manage your own super?** While SMSFs offer greater control, choice and flexibility, you need to keep in mind that you and your fellow members are the fund trustees (see below). This means you are all responsible for running the fund and meeting a range of legal and administrative obligations.
2. **Do you need the additional benefits an SMSF can provide?** For example, the investment choices offered by a publicly available super fund may be more than sufficient for your needs. Also, publicly available super funds have their own trustees, so you don't have to take on this responsibility.
3. **Do you have enough super money to make an SMSF cost-effective?** SMSFs are usually only cost-effective where the fund balance is $200,000 or more.

A financial adviser can help you decide if an SMSF is right for you and recommend a range of strategies to make the most of your personal circumstances.

Who can be a trustee?

SMSF trustees can be either individuals or a company, known as a corporate trustee.

Individual trustees

With individual trustees, each member must be a trustee and generally each trustee must be a member.

If the SMSF is a **single member fund**, a second individual trustee must be appointed, but this person doesn't have to be a fund member. This second individual trustee can be either a relative of the single fund member or another person who doesn't employ the single fund member.

Anyone over the age of 18 can be an individual trustee, provided they are not under a legal disability (such as being mentally impaired) and are not a 'disqualified person'. This is someone who at any time:

- was convicted of an offence involving dishonesty
- has been subject to a civil penalty order under superannuation law
- is an undischarged bankrupt, or
- has been disqualified by the Australian Taxation Office.

Corporate trustee

Where a corporate trustee is appointed, each member must be a director of the trustee company and each director of the trustee company generally needs to be a fund member.

If a **single member fund** has a corporate trustee, the member has to be either:

- the sole director of the trustee company, or
- one of only two directors (provided the other director is either a relative of the single fund member or another person who doesn't employ the single fund member).

A company isn't permitted to act as trustee if:

- a responsible officer, including a director, secretary or executive officer of that company, is a 'disqualified person' (see above)
- a receiver, official manager or provisional liquidator has been appointed to the company, or
- action has commenced to wind up the company.

A family company can act as the trustee of an SMSF, so long as the company's other roles are kept separate. However, a dedicated trustee company can provide a clearer separation of assets and director interests. This can further reduce the chance of error, such as mixing up fund assets with other company assets and reducing possible trustee conflicts of interest.

Note: Individual trustees (or directors of a trustee company) cannot be paid for their services when acting as a trustee (or a director of a trustee company).

Frequently Asked Questions

What are your trustee obligations?

SMSF trustees are responsible for meeting a range of legal and administrative obligations and penalties may apply if you don't perform your duties. Some of the key trustee obligations include:

- Meeting the sole purpose test. This generally means your fund needs to be maintained for the sole purpose of providing retirement benefits to members, or to their dependants if a member dies before retirement.
- Developing, implementing and reviewing an investment strategy for your fund (see page 15).
- Keeping your super assets separate from other assets such as your personal or business assets and assets of employers who contribute to the fund.
- Preparing and keeping proper records, including financial statements, tax returns, audits, actuarial certificates (where applicable) and minutes of trustee meetings and decisions.
- Not lending money or providing financial assistance to members or their relatives using fund assets.
- Not borrowing money except in limited circumstances, such as to purchase investments using a 'limited recourse borrowing arrangement' (see page 16).
- Not allowing in-house assets[1] to exceed 5% of the total fund assets valued at market value.
- Not releasing the money earlier than the fund is legally permitted.

The Australian Taxation Office has prepared some guides and other information for SMSF trustees that you can access by going to **www.ato.gov.au**

Who can help you manage your obligations?

If an SMSF is the right super solution for you and your fellow members, there are a range of professionals that can help you set up and manage your super, and reduce your compliance risks. These include:

- **lawyers** who can provide you with an appropriate trust deed and governing rules for your fund, and advise you on other legal matters
- **financial advisers** who can help you prepare, implement and review your fund's investment strategy (see page 15), and
- **accountants** who are registered tax agents and can look after the fund's record keeping and reporting requirements, and provide taxation advice.

There are also companies that offer a comprehensive package of legal, administration, accounting and auditing services to help you meet your trustee obligations.

The key to running your own super fund is to get expert advice and assistance and not try to do it all yourself.

What are the residency requirements?

To be eligible for concessional tax treatment, your SMSF needs to meet a range of conditions, including the definition of an 'Australian super fund'.

To meet this definition, your fund needs to be established in Australia, or at least one of the fund's assets must be located in Australia. Also, the 'central management and control' of the fund must be ordinarily in Australia and an 'active member' test needs to be satisfied.

While these rules are complex, it's important you are aware that certain components of this definition could be breached if you, or another fund member, goes overseas.

Before going overseas for an extended period, you should make sure you don't breach the requirements. If you do, your fund could become non-complying, lose its concessional tax treatment and incur penalties.

1 An in-house asset is a loan to, or an investment in, a related party of the fund, an investment in a related trust of the fund or a fund asset that is leased to a related party.

Frequently Asked Questions

Why and how should SMSFs prepare an investment strategy?

Preparing, implementing and reviewing an investment strategy for your fund is one of your key trustee obligations (see page 14). The investment strategy should specify meaningful and measurable objectives and take into account:

- your members' ages and retirement goals
- the potential risks and returns associated with different investments
- the expenses that will need to be met and when they will arise, including paying benefits to members as they retire, and
- the benefits of diversifying (spreading) the fund's investments across a number of asset classes such as shares, property, cash and fixed interest.

The investment strategy should outline the methods your fund will use to achieve its objectives. Best practice would be to specify a percentage, or range of percentages, that your fund can allocate to the different asset classes.

If your SMSF invests wholly or primarily in a single asset, such as a business property, you should consider the lack of diversification and the liquidity problems that could arise.

You should also outline how your fund will address these issues. For example, your fund could use earnings from the single asset or new contributions to meet expenses and purchase other investments over time.

Where can an SMSF invest?

Super funds, including SMSFs, can generally invest in some or all of the following assets:

- shares
- term deposits
- bonds
- options
- futures
- notes
- business real property
- residential property
- managed funds
- property trusts
- private trusts
- fixed trusts
- insurance policies
- artwork, coins and stamps.

Not all these assets can be acquired from a related party (see below) or purchased with borrowed money (see page 16). Certain other restrictions may also apply. We recommend you speak to a financial adviser to find out more.

What assets can SMSFs acquire from a related party?

Super funds, including SMSFs, are generally prohibited from acquiring assets from related parties, such as fund members, their family and partners, related companies and trusts.

There are, however, some exceptions including:

- business real property (eg a warehouse from which a business is run)
- listed securities (eg shares in companies listed on a stock exchange)
- units in widely held unit trusts (eg publicly available managed funds), and
- in-house assets[2] where the value doesn't exceed 5% of the total market value of the fund's assets.

While residential property isn't included in this list of exceptions, it's possible for a super fund to acquire residential property from an unrelated party.

2 An in-house asset is a loan to, or an investment in, a related party of the fund, an investment in a related trust of the fund or a fund asset that is leased to a related party.

Frequently Asked Questions

How can SMSFs borrow to invest?

Provided the governing rules allow, SMSFs can borrow to invest by using what's called a 'limited recourse borrowing arrangement'.

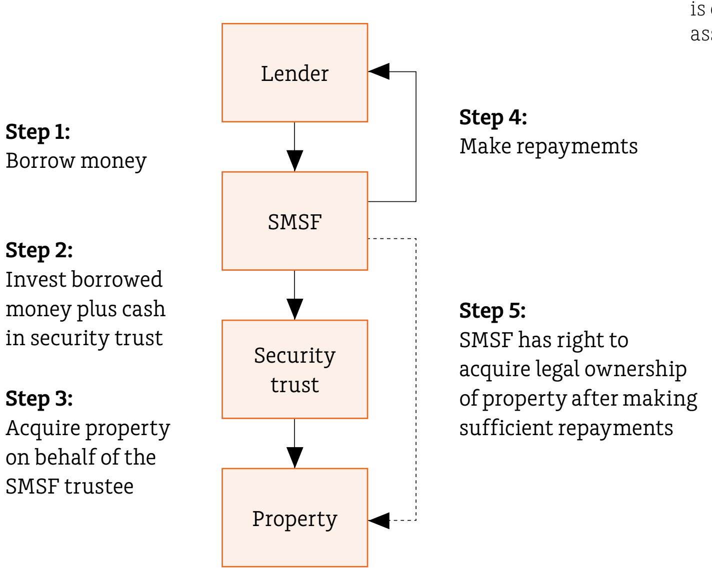
With this arrangement, the asset is held in a 'security trust' during the life of the loan. If the fund defaults on the loan:

- the lender's rights are limited to the asset held in the security trust, and
- the fund's loss is limited to the beneficial interest in the asset and the instalment(s) paid before the default.

The steps usually undertaken when using a limited recourse borrowing arrangement are:

1. The SMSF borrows money.
2. The SMSF invests the borrowed money and the cash required to complete the purchase in a security trust.
3. The security trust uses the money to acquire the allowable asset on behalf of the SMSF. This asset is held as security for the loan.
4. The SMSF makes repayments to the lender.
5. The SMSF has the right to acquire legal ownership of the asset held in the security trust after sufficient amounts have been repaid to the lender.

This process is illustrated in the diagram below, using an investment property as an example:



What assets can SMSFs invest in using borrowed money?

When using a limited recourse borrowing arrangement, SMSFs can only invest in a 'single acquirable asset'. Examples include:

- a single title for land and the accompanying property, but not additional items such as furnishings, and
- a collection of:
  - shares of the same type (eg ordinary shares) in a single company
  - units in a unit trust that have the same fixed rights attached to them, and
  - economically equal and identical commodities, such as gold bars, irrespective of whether they might have different serial numbers.

Note: Australian or foreign currency is excluded from the single acquirable asset definition.

Frequently Asked Questions

What insurances can an SMSF purchase?

SMSFs can purchase a range of insurances for the benefit of fund members and their beneficiaries. These include:

- **Life insurance**, which can provide a lump sum payment[3] in the event of a member's death.
- **Total and Permanent Disability insurance**, which can provide a lump sum payment[3] if a member suffers a total and permanent disability and is unable to work again.
- **Income Protection insurance**, which can provide a monthly payment generally up to 75% of a member's income if they are temporarily unable to work due to illness or injury.

When making super contributions to fund insurance premiums in super, it's important to take into account the concessional and non-concessional contribution caps.

What is the concessional contribution cap?

The concessional contribution (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
- personal contributions claimed as a tax deduction (where eligible[4]).

In 2014/15 the cap is:

48 or under on 30 June 2014	$30,000[5]
49 or over on 30 June 2014	$35,000[6]

Since 1 July 2013, excess concessional 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 (interest) also applies due to the timing difference between when you make the contributions and the assessment by the Australian Taxation Office.

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

What is the non-concessional contribution cap?

The non-concessional contribution (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.

In 2014/15, the cap is $180,000[7]. However, if you're under age 65, it's possible to contribute up to $540,000 in 2014/15, provided your total non-concessional contributions in that financial year, the two previous financial years 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%[8]. Where penalty tax is payable, you must request your super fund to release sufficient benefits to pay the tax.

3 The proceeds from a Life or Total and Permanent Disability insurance policy may also be paid as a pension in certain circumstances.

4 To be eligible to claim your super contributions as a tax deduction, you will need to earn less than 10% of your assessable income, reportable fringe benefits and reportable employer super contributions from eligible employment and meet a range of other conditions.

5 This cap may be indexed in future years.

6 This cap is unindexed.

7 This cap may be indexed in future years.

8 Includes Medicare Levy and Temporary Budget Repair Levy.

Frequently Asked Questions

When can your super be accessed?

Your super can generally be accessed when you meet one of the following 'conditions of release':

- retiring after reaching your preservation age (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
- financial hardship (the amount may be restricted and you must have received a Federal Government income support payment for six months continuously 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.

A 'transition to retirement pension' may also be commenced with preserved and restricted non-preserved benefits if you have reached your preservation age.

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

What are the current marginal tax rates?

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

Taxable income range	Tax payable[9] in 2014/15
$0 – $18,200	Nil
$18,201 – $37,000	19% on amount over $18,200
$37,001 – $80,000	$3,572 + 32.5% on amount over $37,000
$80,001 – $180,000	$17,547 + 37% on amount over $80,000
Over $180,000	$54,547[10] + 47% on amount over $180,000

Note: You can access unrestricted non-preserved benefits at any time, however taxes may apply depending on your age.

9 Excludes Medicare levy.

10 Includes 2% Temporary Budget Repair Levy.

Glossary

A

Assessable income
Income, including capital gains, received before allowable deductions.

C

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

Complying super fund
A super fund that qualifies for concessional tax rates. A complying super fund must meet the requirements set down by law.

Conditions of release
Conditions that need to be met before a superannuation benefit can be accessed (see FAQs).

D

Dependant for superannuation purposes
Those people eligible to receive a death benefit directly from a super fund. Includes a legally married or de facto spouse (including same sex), child of any age, financial dependant, and a person in an interdependant relationship with the deceased.

E

Eligible employment
Broadly, any work that classifies a person as an employee for Superannuation Guarantee purposes.

F

Fringe benefit
A benefit provided to an employee by an employer in respect of that employment. Super contributions made by an employer are excluded from the definition of 'fringe benefit' and therefore outside the scope of fringe benefits tax.

G

Gainfully employed
Employed or self-employed for gain or reward in any business, trade, profession, vocation, calling, occupation or employment.

Governing rules
The rules that outline how a super fund needs to operate in accordance with the law.

I

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

Marginal tax rate
The stepped rate of tax payable on taxable income (see FAQs).

Medicare levy
A levy of 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 are exempt from the levy.

An additional surcharge of up to 1.5% applies to singles with an income in 2014/15 over $90,000[1] pa (or couples with a combined income of $180,000[1] 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%.

N

Negative gearing
Occurs when an investment is purchased with borrowed money and the loan interest and related expenses exceed the assessable income from the investment.

P

Pension investment
An investment commenced with superannuation money that can provide a regular income stream in accordance with superannuation laws.

Personal after-tax super contribution
A super contribution made from after-tax pay or savings.

Positive gearing
Occurs when an investment is purchased with borrowed money and the assessable income from the investment exceeds the loan interest and related expenses.

Preservation age
The age at which preserved super benefits may be withdrawn (see FAQs).

Preserved benefits
Benefits that must be kept in the super system and cannot be withdrawn until a condition of release is met (see FAQs).

1 For the financial year 2014/15.

Glossary

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 the employer has contributed to the fund. These benefits are also available if another condition of release is met (see FAQs).

S

Salary sacrifice
An arrangement made with an employer where pre-tax salary is forgone in exchange for receiving certain benefits such as super contributions.

Security trust
A trust that holds an asset purchased with borrowed money on behalf of an SMSF. The trust cannot hold other assets.

Spouse contribution
An after-tax super contribution made on behalf of an eligible spouse.

T

Tax deduction
An amount that is deducted from assessable income before tax is calculated.

Taxable income
Income, including capital gains, received after allowing for tax deductions.

Taxed super fund
A super fund that pays tax on contributions and earnings in accordance with the standard superannuation tax provisions.

Temporary budget repair levy
A levy of 2% on that part of a person's taxable income that exceeds $180,000. The levy will apply from 1 July 2014 and apply to the 2014–15, 2015–16 and 2016–17 financial years.

Transition to retirement pension
An income stream investment that can be purchased with preserved or restricted non-preserved super benefits after reaching preservation age.

U

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

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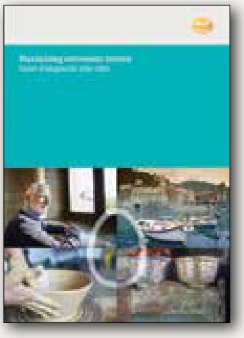

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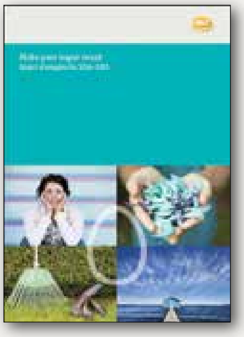

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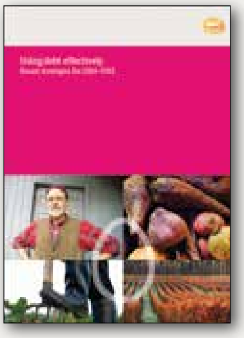
Managing aged care costs



Using debt effectively

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