

SUPERANNUATION – OPPORTUNITIES IN A DOWN MARKET



The recent turbulent market conditions have shaved substantial value from many Australian's superannuation benefits. However, one of the opportunities available under these conditions is to review your superannuation benefits and optimise your Tax-Free Component ("TFC").

Tax-Free Component

The TFC is relevant from an estate planning perspective. Although superannuation is tax-free for those aged 60 and over, this same tax concession does not continue to apply to accumulated benefits on death.

The opportunities arise due to the definition of the TFC as it applies to superannuation accumulation benefits. The TFC is the value of:

- Undeducted contributions and Pre July 1983 component as at 1 July 2007 plus
- Non-concessional contributions to superannuation since 1 July 2007 less
- Any TFC previously paid out.

The balance within the benefit is then the Taxable Component ("TC").

For example:

	\$
Available Benefit Account Balance	800,000
Undeducted contributions as at 1 July 2007	380,000
Pre July 1983 as at 1 July 2007	186,420
Non-concessional contributions since 1 July 2007	100,000
Lump sum of \$100,000, of which \$50,000 was TFC	(50,000)
Tax Free Component of Benefit	616,420
Taxable Component of Benefit	183,580
	800,000

Given the above definition, combined with the downturn in the markets, potentially the value of your member benefits are less than the value of your TFC, enabling you to add further monies to the fund and have it classified as TFC.

For example, many Australians took advantage of the \$1 million undeducted contribution to super prior to 1 July 2007. The value of the \$1M may well be closer to \$600,000 in the current market. However, based on the definition above, the value of the TFC within the benefit is still \$1M. This means that further monies could be added to the member's benefit that would usually form part of the TC, but the application of the definition results in these funds.

The following strategy demonstrates the opportunity:

1. A \$50,000 concessional (pre-tax) contribution would increase the balance in the fund to \$642,500. Concessional contributions generally become TC, however the entire balance would still be TFC, as the member has \$1M of TFC;
2. A further \$310,000 employer super rollover, comprised of \$20,000 TFC and \$290,000 TC, would increase the balance to \$952,500, with the level of TFC increased to \$1,020,000 (\$1M plus \$20,000 from rollover). Again, as the balance of the benefit (\$952,500) is less than the balance of TFC (\$1,020,000), the entire benefit would be TFC;
3. A subsequent market recovery of \$80,000 would increase the running member balance to \$1,032,500. As the member's TFC is \$1,020,000, they would now have a small TC of \$12,500 (ie. \$1,032,500 less \$1,020,000);

Therefore, reviewing these components within your superannuation member account could be beneficial:

1. Any growth or earnings within an accumulation benefit account may actually be classified as TFC rather than TC;
2. Any concessional contributions could be classified as TFC rather than TC; and
3. Any rollovers of TC could be reclassified as being TFC in the new fund.

The benefits of increasing the TFC within a superannuation benefit are:

- Under age 60, the TC of a lump sum withdrawal and any pension payments is still taxable. The higher the TFC the less taxable any payments would be;
- If a member passes away and their benefits are paid out to independent adult children, the TC of the member's benefit is taxed up to 16.5%. Increasing the TFC would result in reducing or eliminating this effective tax rate on a death benefit payment;
- Enhance the TFC hedges against any legislative risk that may arise in the future if the Government decides to tax payments over age 60.

These opportunities are available where the value of your superannuation benefits have fallen below the value of your Tax-Free component due to the downturn in the investment markets.

If you would like to consider these opportunities in more detail, please contact us on 08 6311 6900.

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