Alman Partners

Your Money

Presented by Alman Financial Planning

What does the future hold?

When considering the best strategies to building wealth for your financial independence it is important not just to look at the current rules but to consider any legislative changes in the future. The following case study highlights the benefits of planning ahead.

Bob, aged 54, has in the past 2 years taken advantage of maximising his pre-tax (concessional) contributions to superannuation of $50,000 per annum. Bob's super balance is $410,000 and his wife, Marge is 51 and has a superannuation balance of $200,000.

Under current legislation, the concessional contribution limit will be reduced from $50,000 to $25,000 on the 1st July 2012.

In response to the Henry Tax review, the Labour Government announced in the 2010 Budget a proposal to continue with the higher concessional contributions cap of $50,000 for those aged 50 and over, where an individual's combined super balance is $500,000 or less.

As Bob is approaching the $500,000 cap his financial adviser recommends he adopt a super contributions splitting strategy.

Under the super contribution splitting rules, at the end of each financial year, Bob has the ability to split 85% ($42,500) of his concessional contribution to Marge's superannuation fund. This would achieve the following:-

1. By splitting the concessional contributions, this keeps Bob's super balance below the $500,000 limit, therefore enabling him to have access to the higher concessional contributions cap of $50,000 from 1 July 2012. (assuming that growth of his existing super balance has not exceeded $500,000)

2. The increase to Marge's super balance will potentially assist with improving their tax position on a lump sum withdrawal and income stream basis in the future.

3. There are benefits associated with Centrelink age pension payments. As Marge is younger than Bob, he will be entitled to age pension payments sooner. Based on the age pension asset test, superannuation balances are assessed under the asset test only at age pension age, which is 66.5 years of age for Bob. By splitting contributions into Marge's name her super balance will not be assessed until she reaches age 67, providing higher age pension benefits based on the assets test.

In Bob and Marge's situation every year that Bob can contribute the full $50,000 cap as opposed to the $25,000 cap, he will receive a tax saving of $5,875. (Bob's marginal tax rate 38.5%)

As Winston Churchill said, "Let our advance worrying become advance thinking and planning."

Frances Easton MFinPlan, B.Bus Acc, is a representative of Alman Partners Pty Ltd, Australian Financial Services Licence No. 222107. While this information is of a general nature, readers should seek their own individual advice. Alman Partners can be contacted at office@alman.com.au.