Get to know your super plan

NOEL WHITTAKER

Understand your fund's access rules and work them to your advantage.

SUPERANNUATION has been all over the news this week, with scary headlines aplenty about what governments of all persuasions may do to change the system and make saving for retirement even harder.

Don't lose any sleep about it. It's all part of yet another proposed reform of the tax system, which has been put out for consultation with the aim of making possible changes in 2016. There are many potential problems with that: it will be an election year, the Coalition has a shaky majority, and older retirees who could be most affected are vocal and all vote. And any major changes are likely to be grandfathered.

Superannuation will remain a superb vehicle for saving tax but the price of growing your money in a low-tax environment is loss of access to it until you reach "preservation age". For people aged 32 or more at July 1, 1992, the preservation age is 55, but it is being slowly increased with the aim of having all benefits preserved until age 60 by the year 2025.

Even though all withdrawals are tax-free once you turn 60, you can't enjoy unrestricted access until you are 65.

You can access superannuation as a lump sum once you reach 55 if you "retire". Retirement however is a state of mind, so it is possible for people to retire at 55, draw part of their superannuation and then return to the workforce a few months later because they are sick of doing nothing. Just note that a person who has never worked cannot access their superannuation under these rules.

You can access superannuation when you reach 60 if you retire from any job – it needn't be your main job. At age 65, access is automatic.

In 2006, as part of a total reform of the superannuation system, the access rules were relaxed so that anybody who wanted to continue working after their preservation age was able to take part of their superannuation as an income stream. This income stream – the transition to retirement pension (TTR) – is similar to a normal account-based pension except non-commutable. That's a fancy term that means you can't make lump-sum withdrawals from it.

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TTRs have become extremely popular, and most eligible workers are now boosting their retirement nest egg by salary sacrificing a portion of their salary to super and using the transition to retirement pension to fund any shortfall in their living expenses. TTRs have some limitations until you reach 60 as prior to that age, withdrawals from the taxable components are taxed at your marginal rate less a 15 per cent rebate. It's a no-brainer once you reach 60, as the contributions lose just 15 per cent in entry tax, while the withdrawals are tax-free.

The issue of early access to super is often raised, but the government has deliberately made it difficult to gain access to super before preservation age. Unless you have a terminal medical condition or a permanent serious incapacity, to get early access to your superannuation you must satisfy the trustee of your fund that you are suffering severe financial hardship, such as being liable to lose your home because you cannot afford the loan repayments.

A knowledge of the access rules is essential for anybody making long-term investment plans.

The younger you are, the more you should opt to invest outside of the super system. The older you are, the more you should favour it.

Q I was wondering if you have an opinion on investing in the US housing market at the moment?

A I must confess, I like the old saying "Don't invest in any property you don't drive past every day". Unless you're an expert in this field, I'd be extremely wary of getting into any overseas property market.

Q What is your advice to those of us who don't have dependants and don't have kids to whom to leave our inheritance? What should our strategy be? My objective would be to die with zero assets (no home) and a few thousand in the bank to leave to charity. I'm 58, house worth over $1 million, super of $280,000 and other assets of about $250,000.

A The problem with planning for retirement is that none of us know how long we will live, or what the state of our health will be, or how the government may change the rules, or what disasters we may encounter if we invest badly. This is why it's dangerous not to plan for retirement, or to spend recklessly in the belief that you won't need it when you get older. A woman I know solved the problem perfectly – at the age of 90 she took out an indexed life annuity for around $200,000, which provided her with income for the rest of her life, and gave the rest of her money to charity. This strategy gave her a guaranteed income for the rest of her life as well as the pleasure of watching her money being well spent.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

Negative gearing stays, as does tax on interest

By **DAVID POTTS**

FOR the innocuous national chat that is the discussion paper on tax, Treasury has still somehow managed to line up the ducks.

A good thing too, because it's only doing its job, especially as there's a bonus in the occasional handy tax tip, but the surprise is what's not in its sights.

Negative gearing, where you borrow to invest and any losses are subsidised by the Australian Taxation Office, is one. It's a drain on other taxpayers and government revenue, it's blamed for inflated home values and it encourages debt, but that doesn't worry Treasury.

No siree. This is one tax break where it's prepared to declare its hand early on. "Negative gearing does not, in itself, cause a tax distortion." In fact, Treasury is almost effusive about how it "ensures consistent tax treatment between debt and equity financing". No, the problem is the discount on capital gains tax.

Treasury's beef is that the 50 per cent discount after holding an asset for a year pulls the tax below whatever rate you should be on.

Unsaid is that the biggest tax rort occurs when the most money is involved: the point where the property has appreciated enough for you to sell.

Speaking of which, Treasury has no truck with those mad economists who want to tax the capital gains on the family home and, for good measure, the saving on rent. This would "not be appropriate".

Unfortunately, you can forget about a tax break on interest from savings, even though franked dividends from shares get a 30 per cent credit, no questions asked.

Think that's unfair? Too bad.

The evidence is taxing savings doesn't change investors' behaviour, so there's no point in fixing it, although Treasury is sensitive to the fact that "those with the lowest ability to pay [tax] tend to save more in the more heavily taxed vehicles such as bank accounts".

Maybe there's hope after all. Anyway, one of the ducks lined up is superannuation. No surprise there.

Reading between Treasury's lines, it's not hard to see where the government, which intends to take something to the next election, is going. It'll tax super earnings for those withdrawing money, probably above a threshold. This would make the system more symmetrical and, being domiciled in Canberra, Treasury loves symmetry, since the tax on contributions is doubled if you earn over $300,000. Oh, and a tax tip is to set up a DIY fund so that you can postpone capital gains until you retire and so pay no tax on them. Treasury hates that.

Then there's GST, where the government has tried and failed to hide its intentions. A higher or broader GST might be a goer if Joe Hockey follows Treasury's script.

As it points out, the rich benefit far more from the GST exemptions than the poor.

If the exemptions were removed, the overall GST rate could be lowered and the poor would gain the most. More likely, though, is that the exemptions will go and the rate rise, so the government can fix the budget as well as buy votes – sorry, compensate the losers. While the states would have to agree, dangle enough money before a premier and problem solved.

Also in the firing line, finally, is the $1000 exemption on offshore online purchases. Treasury isn't convinced by the Productivity Commission's finding that the tax would cost more than it would raise, citing "subsequent studies undertaken by stakeholders" showing other ways of collecting GST for online purchases.

Dividend franking comes in for some discussion, and Treasury seems to note approvingly that most countries that had a similar system to ours of rebating the full company tax paid have modified it to only partial franking. Still, Treasury will have you know it's not all about lifting taxes.

"Reducing Australia's corporate tax rate would increase Australia's appeal as a place to do business", it says. It rates company tax as one of the worst for imposing "high long-term costs for living standards".

The other tax that sticks in its craw are stamp duties imposed by the states, alas something it can't do anything about.