Split super funds and win

NOEL WHITTAKER

Splitting superannuation with your spouse can save you money.

THE attacks on superannuation are ongoing. Labor has already announced plans to increase taxes on super, while my Canberra spies tell me that Assistant Treasurer Josh Frydenberg was openly amenable to changes at a retirement conference in Canberra last week. This is despite promises by his leader, Tony Abbott, that any changes were off the table.

One thing is clear – any steps we can take to protect our superannuation should be done sooner rather than later. Fortunately, there is one strategy that is simple, legal, and highly effective; splitting your superannuation with your spouse.

It works like this. Once a year you can instruct your fund to transfer to your spouse 85 per cent of your concessional contributions made in that year. Non-concessional contributions cannot be transferred. Your spouse must be under 55 if retired, or between 55 and 65 if not retired. You can be of any age.

Just keep in mind the transfer must be completed by June 30.

Think about Mike, aged 52. He earns $145,000 a year and is contributing $35,000 a year to superannuation, due to a combination of the compulsory employer superannuation and his own voluntary sacrificed contributions.

He already has more than $400,000 in superannuation but his wife Helen, who has a casual job, has very little. His deductible contribution of $35,000 will still be liable for the 15 per cent contributions tax, but he can ask his fund to put $29,750 of it into her superannuation account. If he keeps up this strategy until he is 67, Helen would end up with over $830,000 in her own superannuation account if her fund earned 9 per cent per annum.

Super splitting doesn't get Mike out of the 15 per cent contributions tax, but it still has advantages. First, it would enable the couple to maximise the amount that could be withdrawn tax-free if either one, or both, stopped work between age 55 and 60.

Cabinet has disagreed in recent weeks over superannuation.

Unlimited withdrawals are only tax-free for those aged 60 or more. Those aged between 55 and 60 can withdraw only the first $185,000 of the taxable component tax-free. By having two large funds, they could withdraw $370,000 tax-free between them.

If they decided it was appropriate, he could even work until age 75 and keep up the salary sacrifice/spouse split strategy if Helen could pass the work test. This would keep him in a lower marginal tax bracket, while funding a major part of the household expenses through tax-free withdrawals from her super.

The strategy can be especially useful if there is a significant age difference. If Helen was older than Mike she would reach age 55 or 60 before him and so be able to enjoy the tax and access benefits that come at those ages. If she was younger, their Centrelink benefits could be maximised, as money in superannuation is not counted until the owner reaches pensionable age. Suppose Mike turned 69 when she was 61. He could cash out a large chunk of his super tax-free and put up to $540,000 into super in her name as a non-concessional contribution and, subject to other assets, get a part aged pension and all the benefits that go with it.

A potential benefit in moving superannuation to your spouse's account is protection against future rule changes that may restrict lump sum withdrawals or put a special tax on higher balances. These types of changes won't happen overnight but, if they did happen, two separate superannuation accounts would certainly give you more flexibility than having all your money in the name of just one partner.

As always, the key to good investment is flexibility.

Q My husband and I have been told that if we draw a lump sum from our super, we would pay tax on the withdrawal. Is it true that if we withdrew the funds as an allocated pension, we would not have to pay tax?

A There is no tax on withdrawals from funded superannuation funds after the member reaches 60. However, between preservation age and age 59, there is zero tax on the first $185,000, and 15 per cent plus Medicare levy on withdrawals in excess of $185,000. Withdrawals before the member reaches preservation age incur a flat tax of 20 per cent plus Medicare levy.

Q My wife and I propose giving each of our two adult daughters a cash gift of $100,000, and would like to know of any tax implications for them, or for us. The Australian Taxation Office website seems to indicate that gifts may be taxable if they are large amounts.

A My accountant advises that a gift from parents to children out of natural love will not normally meet the criteria for taxable gifts according to ordinary concepts. The ATO website is probably referring to artificial situations where a person may make a substantial gift in lieu of a contracted payment that would be liable for tax in the hands of the recipient.

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.

Just because you can does not mean you should

By **MARCUS PADLEY**

HAVING a smartphone doesn't make you an expert in the sharemarket. Here are four mistakes any rookie can make.

1. Thinking the sharemarket is easy: The technology is fantastic, sexy, smart, powerful, and the marketing is even better. But we all need to slow down. I can cut wood and hammer nails but it doesn't mean I can build a house. Someone should shout from the rooftops some day that just because you can trade the sharemarket doesn't mean you are a fund manager. I don't come home and do my own dentistry; why does a dentist think he can come home and pick stocks? We are putting our super funds, our futures, our families on the line – and with a natural urge to have a bit of a punt, this is dangerous stuff indeed. Just because we can, doesn't mean we should. If you have no skill, interest, passion or time you should not be trading the sharemarket from a tram on your mobile. And putting the management of your retirement into your own hands risks something a whole lot worse. Better you buy a boring managed fund, an index fund or a listed investment company than put your future in the hands of an amateur: you. Looking after your own retirement online is also a burden and a responsibility and done wrong, it can even be divisive for relationships. Are you sure you want all that? Or would you prefer the average return and all your evenings and weekends to yourself? It's too easy to do the wrong thing these days. Just because you can.

2. Not selling: If there's one thing you should have learnt from the global financial crisis about the sharemarket, it is this. No one ever tells you to sell. The best stock in a bear market is cash but, amazingly, no one ever tells you to buy cash. This is perhaps one of the most important lessons of the financial crisis. The finance industry is a marketing machine. It is designed to get you in, not let you out. Have you ever tried to ring up a financial professional and tell them you want to sell everything? They will resist you. They are not in the business of facilitating the extinction of their fee or that "trail for life". The lesson for all of us is that the sell decision has to be ours and when we decide to sell, we will need resolve, because the finance industry will fight us. So expect to meet resistance as you try to execute on it. Bottom line: when big turning points come at the top of markets, do not expect anyone to call. Only you can protect yourself from losses. The finance industry is not designed to help you with that.

3. Not paying attention: If you are using a financial professional, a broker, financial planner or accountant and you're not happy with your financial performance, then let me tell you from someone paid to take the blame: it's your fault. The biggest rort is a professional charging a fee for setting and forgetting, doing nothing after the initial investment. If you just leave it in their hands, nothing will happen. Any loss is your responsibility, whoever picked the investments. Pay attention. If you don't care, who will? Neglect will cost you a fortune.

4. Denial: Things do not look after themselves and do not go away if you ignore them. Financial issues in particular have the ability to depress without address – from not doing your tax return on time to losing money in the sharemarket. All these issues have to be cleared out of the mind, not left to plague it. Unaddressed financial issues can be very destructive.

Financial issues are only a function of dollars. Address them early. Some of the best moments come from conquering the financial molehills you have built into mountains.

Marcus Padley is the author of the stock market newsletter Marcus Today.