Super goalposts shift again


NOEL WHITTAKER

It's tough going in the superannuation trenches.


Finance Minister Mathias Cormann is remaining coy on super changes. *Picture: Alex Ellinghausen*

BATTEN down the hatches and take cover: our superannuation is under attack. The Abbott government – remember them? – promised no changes to superannuation, on the grounds that today's retirees had invested in superannuation in the reasonable belief that the present rules would remain unchanged and no retrospective legislation would be enacted.

Well, if you read between the lines of political double-speak, that situation might be about to change.

Earlier this week, when Finance Minister Mathias Cormann was being interviewed on Channel 10, he was asked specifically whether the government intended to change the superannuation rules. His reply was: "It's not on the agenda, we have just not taken anything off the table."

It gets worse. On the Andrew Bolt program, the questions from Bolt were more direct. He asked Cormann: "What's this tax grab? You were against it before!" Cormann responded: "Well, we're not going to increase taxes as a share in the economy, we're not going to increase the tax burden in the economy."

The ABC then jumped on the bandwagon, with *AM* reporter Tom Iggulden asking Pauline Vamos, chief executive of ASFA (Association of Superannuation Funds of Australia), to spell out her association's views on any proposed changes to super.

Her response was that ASFA was pushing for changes for those with superannuation balances over $2.5 million. She went on to say: "We are not talking hundreds of thousands of people here, maybe just 70,000 people." When asked how much tax was likely to be saved by such changes, she replied, "Not a great deal of money in the scheme of things – maybe $20 million to $30 million."

By my reckoning, that's about the cost of one month's bombing in Syria. What such a change to super would achieve is to make Aussie battlers feel good about rich fat cats getting their come-uppance. Because the biggest myth about super at the moment is that it provides an opportunity for high-income earners to squirrel away millions of dollars in a low tax area.

Think about Bob, a high-earning 40-year-old professional who earns $600,000 a year. His deductible contributions are limited to $30,000 a year, on which he will pay 30 per cent entry tax, leaving a net contribution of $21,000.

Yes, he could take $340,000 out of his salary, pay tax of $160,000 on that and have $180,000 left to make an after-tax contribution. In other words, he has used $370,000 of his gross salary and paid taxes of $169,000, to put a net $201,000 into super. This hardly sounds like a paradise for high-income earners.

But that's just theory. If Bob is like most high-income professionals, he won't have a hope of putting much at all into super as a non-concessional contribution because the bulk of his salary will go into paying the mortgage on his million-dollar mansion, fees for his kids at private schools and annual trips overseas.

Even if he could find $180,000 after tax, he could well decide he's better off to use it as a deposit for an investment property or a good share portfolio. He would be positively geared from the outset and would have a lot more assets working for him than if he had relied on superannuation, where his money is inaccessible until he turns 60.

In another report this week, the OECD called for world governments to harmonise their tax laws that presently allow up to 10 per cent of global corporate tax receipts to disappear in low-tax or zero-tax havens.

If Australia gets on board with the rest of the world, the tax changes could add $7 billion a year to our tax revenue. Surely that should be a better goal for governments than trying to raise a piddling $30 million a year chasing the superannuation of Australians who have already retired.

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

Q My wife and I are ready to upgrade our home. We have only $5000 remaining on our current mortgage, with the home valued at $500,000 and rental potential of $375 per week. I'm unsure if we should sell our existing home to purchase the new home, or refinance the existing home and make it an investment property. What are the capital gains implications of the latter option?

A If you keep the home and rent it out, the deductible interest will be limited to that payable on the existing mortgage. You cannot increase the tax deductibility by mortgaging that property to buy your residence. Once you leave that property you will be liable for capital gains tax on any increase in value from that date. It is possible, however, to return to that property in the future and claim the six-year absence CGT exemption, but, if you did this, the new property would be subject to CGT. This is because you can't have two principal places of residence at the same time. Make sure you liaise closely with your accountant.

Q My wife and I are aged 70 and 75 respectively. We have a self-managed superannuation fund and wish to save our children (non-dependant) the 17 per cent tax when we die. The taxable component is very hard to work out and I believe the tax man requires a reasonably accurate figure. Could you please advise if it is based on the untaxed income of the SMSF? Does it go back for a certain number of years? Some advice we have received is to liquidate the SMSF before our demise.

A Your fund should be preparing annual audited statements and these should include a detailed breakdown of the components. If this is not currently being done, I suggest you take advice urgently. The books of your SMSF should show the actual components of the money originally rolled into the SMSF from the Retail Public Offer fund. Each year, as the SMSF is audited, the annual membership statement of each member should detail the components of the member's benefits.

New financial goals have to be set after a separation

By **NERIDA COLE**

One of the most stressful things you can do is get divorced, and it has financial implications.

THE breakdown of a long-term relationship can be emotionally and financially devastating. After agreeing the terms of a financial settlement, setting new financial goals can feel like an insurmountable task. But breaking the process into three gradual stages can build your financial confidence and strength.

The first step is to stop, recognise and acknowledge that you have had a significant change in your financial arrangements. Your tolerance to risk can drop dramatically post-separation, but this is likely to evolve as you understand your new financial position and reset your long-term financial and retirement goals.

After a pause, you will need to reassess your total financial position. Start with the basics.

Make a detailed list of all expenses, commitments and repayments. Assess your cash flow sources, including how stable they are, and make sure you hold sufficient reserves for emergencies. Consider which commitments are fixed versus discretionary, as this may help you make adjustments if savings are needed for other goals.

To work out a debt repayment plan to co-ordinate with your eventual retirement goals (discussed later), consider loan amounts, terms, interest rates and available equity.

The third stage is to revisit your longer-term goals, such as superannuation and retirement needs. Setting exact retirement plan parameters can be very difficult, but a good understanding of your new retirement trajectory – no matter how scary – will help you to evaluate the trade-offs between other financial decisions. For example, maintaining a small home or apartment with no debt instead of a high-value home with debt may allow you to retire at 65 instead of 70 because you are able to direct cash towards super savings rather than debt repayments.

Your superannuation will need special attention. Assess what investments are held inside the fund, how much is allocated to cash and how much you expect to contribute or draw out if you are in pension stage. Review the allocation to the higher-risk growth investments against your tolerance to risk. It's OK to take a low-risk approach while other aspects of your finances are stabilising. Over time, if your tolerance to risk increases, you can adjust.

It's also important to consider your insurance arrangements and make sure your superannuation fund has a binding death benefit nomination form that contains your up-to-date instructions.

You should be mindful of the legal, accounting and tax implications at all stages and it is vital to get professional advice.

A relationship breakdown is a difficult process for both parties. Thoughtful and prudent financial planning and regular review can help smooth the rebuilding of your financial security.

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