

Give your super a split personality



Noel Whittaker

Superannuation remains one of the best wealth creation vehicles around.

THE approach of Easter always triggers two thoughts. First, how quickly a big chunk of the year has already passed, and second, it's time to think about superannuation again.

Don't throw your hands up in horror. Despite the continual changes to the rules, superannuation remains one of the best wealth creation vehicles around and is likely to stay that way. Remember, it's an election year and the number of retirees is growing rapidly – and they all vote.

One of the most exciting changes to superannuation happened five years ago when the government of the day introduced superannuation spouse splitting. It was a big hit then because it enabled couples to double the amount they could have in superannuation, and also double the amount that could be withdrawn tax-free.

Both these benefits are irrelevant today – the amount that can be held in superannuation is now limitless, while all withdrawals are tax-free once you reach 60.

This has led some to question whether spouse splitting is still worthwhile. The answer is a resounding yes – in certain circumstances.

Super splitting works like this: Once a year you can instruct your fund to transfer, to your spouse, up to 100 per cent of your superannuation contributions made in that year. Both undeducted and deductible contributions can be transferred, but the 15 per cent contributions tax on the concessional (deductible) contributions will have to be taken into account when the transfer is made. This effectively limits the amount of concessional contributions

that can be split to 85 per cent. Think about Peter, aged 52. He earns \$125,000 a year and is contributing \$50,000 a year to superannuation due to a combination of the compulsory employer superannuation and his own voluntary sacrificed contributions.

He already has more than \$600,000 in superannuation but his wife Clare, who does not work, has none. His deductible contribution of \$50,000 will still be liable for the 15 per cent contributions tax but he can ask his fund to put \$42,500 of it into her superannuation account. If he keeps up this strategy until he is 65 she may well have more than \$900,000 in her own superannuation account then if her fund earned 9 per cent per annum.

Super splitting doesn't get Peter out of the 15 per cent contributions tax but it still has advantages.

First, it enables them to maximise the amount that can be withdrawn tax-free if Clare wants to make withdrawals before age 60 – remember, withdrawals are only tax-free for those aged 60 or more. Those aged between 55 and 60 can withdraw the first \$150,000 of the taxable component tax-free but, for them, the exit tax of 16.5 per cent remains on the balance.

If deemed appropriate, he could even work until age 75 and keep the salary sacrifice/spouse split strategy going. 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 Clare was older than Peter she

would reach age 55 or 60 before him and so be able to enjoy the tax and access benefits that come at either of those ages. If she was younger than him, their Centrelink benefits could be maximised, as money in superannuation is not counted until the owner reaches pensionable age.

Suppose Peter turned 65 when she was 58. He could cash out a large chunk of his super tax-free and put up to \$450,000 into super in her name as an undeducted contribution and, subject to other assets, get a substantial aged pension and all the benefits that go with it.

A potential benefit in moving superannuation to your spouse's account is protection against rule changes in the future that may restrict lump sum withdrawals.

I don't think it's on, but it is obvious from the many emails I receive that a lot of you are worried about it. In the unlikely event of it happening, two separate accounts would enable a couple to have two lots of accessible lump sum withdrawals.

It's a sad reality that looking after your superannuation is a bit like having a vegetable garden. There is always something to be done and you need to be on constant guard against intruders.

However, it should produce a great harvest if it's given careful attention and is well looked after.

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Q What are your views on investment alternatives for those people approaching retirement who find the volatility of the super fund system worrying to say the least, given recent events? What are the pros and cons of a self-funded retiree putting money in allocated pensions (other than the tax-free incentive on withdrawals, of course), assuming that this is the only source of income?

A An allocated pension fund is nothing more than a superannuation fund that is paying a regular income stream. Obviously, you cannot escape the volatility of the market if your money is held in a superannuation fund or allocated pension fund unless you choose assets inside that fund that are not

subject to market fluctuations. The challenge is that such assets normally do not have the same long-term returns as the more volatile growth investments. A good option may be to sit down with your adviser and agree on a diversified mix of assets. This should reduce volatility and help you to achieve better returns.

Q In a recent column you wrote that "the maximum rate of CGT is 23.25 per cent if they hold the asset for more than a year". Is this rate only applicable to certain asset classes? I checked the ATO website and the tax rate for holding the asset after one year is 50 per cent.

A Once the asset has been held for more than a year you are only liable for tax on 50 per cent

of the capital gain. Therefore, for a top-rate taxpayer you could state that capital gains tax at 46.5 per cent is payable on 50 per cent of the gain or capital gains tax at 23.25 per cent is payable on the whole gain.

Q What expenses are involved in changing a name on title deeds? Can I give the property to my daughter, and what capital gains would she pay if she sold it?

A There will almost certainly be stamp duty and registration fees, which your solicitor can calculate for you, and there may also be capital gains tax payable by the seller if the property has been used for investment. Make sure you seek advice before you sign the documents.

Property debate can't ignore US housing freefall

By GARRY SHILSON-JOSLING

THE president of Australia's peak real estate industry body is "astonished" that Australia's top central banker queried the wisdom of going into hock to invest in real estate.

The comment sparking the reaction came from Reserve Bank of Australia (RBA) governor Glenn Stevens.

"I think it is a mistake to assume that a riskless, easy, guaranteed way to prosperity is to be leveraged up into property.

"It isn't going to be that easy," Mr Stevens told interviewer David Koch on Seven's *Sunrise* on Monday.

On the other hand, the real estate industry would prefer it to be just

that easy. In a statement released on Tuesday, the Real Estate Institute of Australia said its president, David Airey, was "stunned" to hear Stevens had said "property was no longer the easy path to prosperity".

"I'm astonished the RBA governor would get so involved in the property market and effectively warn Australians not to buy or invest in property," the statement quoted Airey as saying.

The divergence of views is understandable, given that the RBA and the REIA have divergent mission statements.

Even so, it would be easy to overstate the extent to which the RBA's plans threaten to dash the hopes of the real estate industry.

Once the dust settles, the recovery in demand for housing will come to be seen as "a normal upturn followed by a stabilisation period".

But, in all likelihood, that would be considered by the RBA to be an ideal outcome rather than something to be avoided.

What the RBA would like to avoid is a boom financed by ever-increasing levels of debt, which explains Stevens's pointed comment about being "leveraged up", or in greater debt to finance bigger asset purchases.

The problem with leveraging, as many home buyers in the US and the UK are finding, is that it also magnifies the potential losses, exposing the home buyer or investor to the real risk of owing

more than the value of their asset if prices fall. It is not the first caution the RBA has issued on this score.

"Increased indebtedness raises households' exposure to shocks to their incomes and financial circumstances," it warned in its quarterly monetary policy statement last month.

Only a small proportion of households were "very highly geared" – that is, with a very high level of borrowing relative to their assets.

The most recent data, for late 2008, showed only about 2 per cent of households with mortgages on their homes paid more than half their disposable income on debt repayments and owed more than 90 per cent of the value of their

homes. And households with mortgages made up only a little more than a third of the total.

Two per cent of one-third amounts to a relatively small proportion.

But the global financial crisis showed what can happen when defaults by a small number of borrowers can start an avalanche. And the REIA should be glad the RBA takes that view. For the alternative, it has only to look to the US.

There, despite more than a year of near-zero official interest rates, housing prices are still down by about 30 per cent from their peak four years ago and lenders have foreclosed on 5 million home loans in the past two years alone.

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