

2011 Year end tax planning

With the end of the 2011 financial year approaching, it is important to review your current and future superannuation strategies.

Concessional Contributions

The concessional (pre- tax) contributions cap for the year ended 30 June 2011 are:

Up to age 50: \$25,000
Age 50 and over: \$50,000

From 1 July 2012 the \$50,000 cap reduces to \$25,000 if your superannuation balance is more than \$500,000.

These limits apply to contributions from all sources and include:

- 9% superannuation guarantee
- all salary sacrifice contributions
- super guarantee paid on bonuses
- life insurance paid by an employer

The cap is per person so the limit applies across all employers and all superannuation funds.

Salary Sacrifice

Salary sacrifice contributions and the 9% compulsory superannuation guarantee both count towards the annual concessional contribution cap. Individuals salary sacrificing into superannuation need to ensure their sacrificed amount together with their employer's 9% contribution do not make them breach the cap. When a bonus is paid by an employer the superannuation guarantee on the bonus also counts towards the concessional contributions cap. It is the employee's responsibility to ensure their cap is not breached.

Deductions for Personal Concessional Contributions

Individuals who are self-employed or substantially retired, may be eligible for a tax deduction in respect of personal contributions. They must pass the 10% rule.

The 10% rule requires that less than 10% of their total income is connected to employment. Since 1 July 2009, this includes salary sacrifice contributions, which are

shown as reportable superannuation benefits. If you fail the 10% rule, the contribution will count towards the non-concessional cap.

Superannuation Guarantee Contributions

Employers must pay the 9% superannuation guarantee on a quarterly basis. For superannuation contributions to be deductible this financial year, they must be paid before 30 June 2011. An employer is not required to pay superannuation guarantee in excess of the 'maximum contributions base'. The maximum contributions base is \$42,220 per quarter for the 2010/11 year.

Non-Concessional Contributions

The non-concessional (post-tax) contribution cap is \$150,000 per annum. Individuals under age 65 may contribute up to \$450,000 by bringing forward up to two years' worth of contributions.

The bring forward rule is triggered during the first year you exceed the \$150,000 cap.

Contribution of Assets

Individuals wishing to maximise contributions but who do not have cash available, can also contribute assets such as listed shares, listed managed funds and business real property to a self managed superannuation fund (SMSF).

Excess contributions

If you exceed the contribution caps, you will be liable to pay excess contributions tax, which is calculated as follows:

Contribution Type	Excess Contributions Tax
Concessional	31.5%, in addition to the 15% paid by the fund. Can be paid by the fund.
Non-Concessional	46.50% Must be paid by the fund.

Excess concessional contributions count towards the non-concessional contributions cap. Therefore if you have exceeded the concessional cap and made the maximum amount of non-concessional contributions, this can result in the amount being taxed at 93%.

The ATO have allowed a concession for first time offenders if they exceed the concessional cap by less than \$10,000. This is not effective until 1 July 2011.

Unit trusts with unpaid present entitlements

If an SMSF is entitled to a trust distribution from a related trust, but the amount is not paid to the SMSF, it will be an in-house asset if the value is over 5% of the market value of the superannuation funds assets.

Minimum pension drawdown

Individuals drawing a pension from their superannuation fund need to ensure that at least the minimum pension amount has been withdrawn prior to 30 June 2011. Where a pension is commenced during the financial year, the minimum payment amount is pro-rated. There is no minimum drawdown requirement for pensions commenced after 1 June 2011.

Not withdrawing the minimum pension amount for each pension prior to 30 June will result in loss of the pension exemption.

The minimum pension withdrawal amount for the 2011 year has been halved. For the 2012 year the standard minimum has been reduced by 25%.

Minimum withdraw		
Age	2011	2012
<65	2	3
65-74	2.5	3.75
75-79	3	4.5
80-84	3.5	5.25
85-89	4.5	6.75
90-94	5.5	8.25
95 +	7	10.5

Co-contribution

Non-concessional contributions of up to \$1,000 will be matched by the Government with a co-contribution of up to \$1,000 for people earning less than \$61,920. The maximum payment of \$1,000 is received when your income is under \$31,920. The co-contribution phases out once your income is \$61,920. To be eligible for the co-contributions you need to be employed or self-employed.

Spouse contributions

A tax offset of up to \$540 is available where a spouse contribution of up to \$3,000 is made. In order to receive the full offset, a \$3,000 non-concessional contribution must be made on behalf of a spouse and the spouse's taxable income must be less than \$10,800. No offset is available where the spouse's taxable income is over \$13,800. The \$3,000 counts towards the non-concessional limit of the receiving spouse.

Trading Stock

From 10 May 2011, the ATO will treat all shares as being held of the "long term" and not as trading Stock. This means all disposals of share investments will be assessed under Capital Gains Tax legislation and not under ordinary income concepts. Therefore any assets held as trading stock by a SMSF must be converted to long term investments in the balance sheet.

Should you require assistance additional information, contact:

Kim O'Brien | 02 8536 7775 | kim.obrien@pkf.com.au
Level 3, 304 Kingsway | Caringbah |
NSW | 2229 | Australia

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