This brochure is published by MLC Limited (ABN 90 000 000 402), 105–153 Miller Street, North Sydney, NSW 2060. It is intended to provide general information only and does not take into account any particular person’s objectives, financial situation or needs. Because of this you should, before acting on any advice in this brochure, consider whether it is appropriate to your objectives, financial situation and needs.

MLC Nominees Pty Limited (ABN 93 002 814 959) is the issuer of MLC MasterKey Superannuation, MLC MasterKey Business Super, The Employee Retirement Plan and MLC Life Cover Super. MLC Investments Ltd (ABN 30 002 641 661) is the Operator of MLC MasterKey Custom Superannuation and MLC MasterKey Custom Self Managed Super.

You should obtain a Product Disclosure Statement (PDS) relating to any financial products mentioned in this brochure and consider it before making any decision about whether to acquire or hold the product. Copies of current disclosure documents are available upon request by phoning the MLC MasterKey Service Centre on 132 652 or on our website at mlc.com.au.
Super is even more super

Superannuation is still one of the best ways to accumulate wealth and save for your retirement. The main reason, of course, is the favourable tax treatment. When you invest in super, earnings are taxed at a maximum rate of 15%. A low tax rate means your money can grow faster than investments that are taxed at a higher rate.

Depending on your circumstances, there may be some other great incentives – like claiming a tax deduction for your own contributions or receiving a co-contribution from the Government.

Also, in the 2006 Federal Budget, the Government proposed from 1 July 2007, all benefits received from a taxed super fund at age 60 or over will be tax-free.

However, to get the most out of superannuation you need to be ‘super smart’. You need to understand how the rules work and use them to your advantage. You also have to keep up with the latest rule changes so you can take appropriate action.

In this booklet, we outline ten clever strategies that could help achieve your lifestyle and financial goals. Each of these strategies has long-term implications, so by making the right moves now, you may benefit in the future.

This booklet serves as a guide only. To find out if a particular strategy suits your circumstances, we recommend you see a financial adviser.

Important information

The strategies covered in this booklet assume that the superannuation fund is a complying fund (see Glossary).

The information and strategies provided are based on our interpretation of relevant superannuation, social security and taxation laws as at 25 September 2006, as well as the proposals outlined in the 2006 Federal Government Budget and subsequent announcements.

The Budget proposals have not been legislated and the existing laws change frequently. You should therefore obtain advice specific to your own personal circumstances, financial needs and investment objectives, before you decide to implement any of these strategies.

The investment returns shown in the following case studies are hypothetical examples. They do not reflect historical or future returns of any specific financial products.
Investment basics

Choosing the right mix of assets can make a big difference to your super.

The graph below reveals growth assets, such as Australian and global shares and property, have delivered higher returns for investors over longer time periods (i.e., seven years or more). These asset classes have also been more volatile than cash and bonds over the short-term (i.e., one to three years).

Asset class comparison – $10,000 invested

So …

In most cases, you can’t access your super until you retire (see FAQs on page 30). So if you don’t plan to retire for another seven years (or more), you may want to consider investing a significant portion of your super in growth assets. But before you make your investment choice, you should also consider your goals, needs, financial situation and your comfort with market ups and downs.

To determine a mix of assets that suits your needs, you should speak to a professional financial adviser.
Contents

Public offer superannuation versus self-managed superannuation 4

Strategies at a glance 7

Strategy 1  Boost savings and minimise tax via salary sacrifice 8
Strategy 2  Divert cashflow from your home loan into super 10
Strategy 3  Combine salary sacrifice with a non-commutable allocated pension 12
Strategy 4  Split your way to a better retirement 14
Strategy 5  Top-up your super with help from the Government 16
Strategy 6  Purchase life and TPD insurance tax-effectively 18
Strategy 7  Move assets into super and minimise tax 20
Strategy 8  Rollover an employer ETP and reduce your tax 22
Strategy 9  Contribute to super and offset CGT 24
Strategy 10 Convert business capital into tax-free retirement benefits 26
FAQs 28
Glossary 32
Public offer superannuation

In a public offer super fund, a corporate Trustee takes care of all the fund’s reporting, management, tax and investment responsibilities.

Public offer funds generally suit people who prefer to outsource the management of their superannuation or have smaller account balances.

The benefits

- You don’t have to worry about the cost and legal hassle of setting up your own fund, or the ongoing responsibilities of running the fund.
- You can choose from a range of managed investment options and in some cases direct shares.
- Your investment receives concessional tax treatment.

Tips and traps

- While you can only invest in the options offered by the fund, a broad choice of investment options is usually available.
- Because the Trustee makes all the decisions in relation to the management of the fund, you can sit back and relax while someone else does all the hard work. Keep in mind this also means you typically have no say in the way the fund is managed.
- Some public offer funds offer reduced management fees for larger account balances.
- Most of the strategies in this book can be implemented through a public offer fund.
Self-managed superannuation

A self-managed super fund (SMSF) – also known as a DIY fund – has fewer than five members. All members are Trustees of the fund, and all the Trustees are members. If you set up a SMSF, you take on all the responsibilities of a Trustee.

SMSFs are generally more appropriate for people with larger account balances (upwards of $250,000), who want to be actively involved in the management of their super.

The benefits

- Because you’re a Trustee of the fund, you can exercise more direct control over the investment strategy.
- You have a choice of managed investments, direct shares and private assets such as direct property.
- Your investment receives similar concessional tax treatment to a public offer fund.

Tips and traps

- The secret to successfully managing your own super fund is to get expert advice. Don’t try to do it all yourself.
- As Trustee of your own fund, you and the other Trustees are responsible for all aspects of the fund – including any tasks outsourced to third-party service providers.
- There are many costs involved in setting up your own fund, including establishment costs, legal costs, ongoing administration costs and investment costs.
- There are companies who can help you to set up and administer a SMSF.
- Most of the strategies in this book can be implemented through a SMSF.
- There are currently over 317,000* self-managed funds in Australia. To find out whether a self-managed fund is right for you, talk to your financial adviser.

* APRA Quarterly Superannuation Performance – March 2006.
Superannuation is a long-term investment. So it makes sense to invest it in assets that have potential to provide higher long-term returns.
## Strategies at a glance

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Suitable for</th>
<th>Key benefits</th>
<th>Page</th>
</tr>
</thead>
</table>
| 1. Boost savings and minimise tax via salary sacrifice                  | Employees and employers                                                      | • Reduce income tax  
• Increase super benefits                                                         | 8    |
| 2. Divert cashflow from your home loan into super                        | Anyone with a home loan                                                      | • Use your cashflow tax-effectively  
• Increase super benefits                                                         | 10   |
| 3. Combine salary sacrifice with a non-commutable allocated pension     | Anyone aged 55 or older and still working                                    | • Increase your retirement savings  
• Benefit from an income stream investment while you are still working           | 12   |
| 4. Split your way to a better retirement                                | Couples                                                                      | • Reduce tax on super benefits received before age 60  
• Retain more of your super                                                        | 14   |
| 5. Top-up your super with help from the Government                       | Lower income employees                                                      | • Receive a Government co-contribution (up to $1,500)  
• Increase super benefits                                                         | 16   |
| 6. Purchase life and TPD insurance tax-effectively                       | Employees who are eligible to salary sacrifice, employees who are eligible to receive co-contributions, couples where one partner earns a low income and self-employed people | • Reduce the cost of insurance premiums  
• Purchase more insurance cover                                                     | 18   |
| 7. Move assets into super and minimise tax                              | Anyone who wants to transfer certain assets into super (restrictions apply)  | • Reduce tax on earnings  
• Increase super benefits                                                         | 20   |
| 8. Rollover an employer ETP and reduce your tax                         | Anyone receiving an employer ETP                                            | • Pay less tax on your benefit  
• Increase super benefits                                                         | 22   |
| 9. Contribute to super and offset CGT                                   | Anyone selling an investment who is eligible to make tax-deductible contributions into superannuation | • Save CGT  
• Increase super benefits                                                         | 24   |
| 10. Convert business capital into tax-free retirement benefits          | Small business owners approaching retirement                                | • Save CGT  
• Increase super benefits                                                         | 26   |
It’s a well-documented fact – we all need to take responsibility for funding our retirement. So if you are looking for a simple and tax-effective way to boost your retirement savings, you may want to consider a strategy known as salary sacrifice.

Salary sacrifice involves getting your employer to contribute some of your salary, wages or a bonus payment directly into super – before tax is deducted at your marginal rate (which could be up to 46.5%*). The advantage of this is salary sacrifice super contributions are taxed at a maximum rate of 15% – a potential tax saving of up to 31.5%.

By implementing this strategy you can save on tax and make a larger investment for your retirement.

* Includes a Medicare Levy of 1.5%.

How does the strategy work?

To use this strategy you will need to make an arrangement with your employer that is prospective in nature. In other words, you can only sacrifice income that relates to future performance. When sacrificing regular salary or wages, the arrangement should commence on the first day to which the next pay period relates.

However, you may only salary sacrifice a bonus payment to which you have no pre-existing entitlement. In practice, this means the arrangement must be made no later than the day before your employer determines your bonus entitlement.

In both cases, it’s also important to have the agreement thoroughly documented and signed by both parties.

Note: Salary sacrifice contributions can’t be accessed until you meet a condition of release – see FAQs on page 30.

The benefits

- Increase your retirement savings in a tax-effective manner.
- Invest up to 85% of your pre-tax salary, compared to only 53.5%* when investing take home pay.

* Assumes you pay tax at the highest marginal rate of 46.5% (including a Medicare Levy of 1.5%).
Case study

William (aged 45) receives a salary of $75,000 pa and anticipates receiving a bonus of around $10,000. He negotiates with his employer to have any bonus paid directly into his super fund, rather than receiving the money as cash salary. This will enable him to invest an additional $2,650.

If William retires in 20 years at age 65, the higher initial investment, plus a maximum tax rate of 15% on investment earnings, makes salary sacrifice a more powerful strategy than investing the after-tax bonus within super (as an undeducted contribution) or outside super. This is confirmed below at William’s marginal tax rate of 41.5%*, as well as the highest marginal rate of 46.5%*.

* Includes a Medicare Levy of 1.5%.

The long-term benefits of salary sacrifice ($10,000 invested over 20 years)

<table>
<thead>
<tr>
<th></th>
<th>Salary sacrifice</th>
<th>Super (undeducted)</th>
<th>Non-super</th>
</tr>
</thead>
<tbody>
<tr>
<td>$35,000</td>
<td>$31,139</td>
<td>$20,482</td>
<td>$17,594</td>
</tr>
<tr>
<td>$30,000</td>
<td>$31,139</td>
<td>$22,396</td>
<td>$20,215</td>
</tr>
<tr>
<td>$25,000</td>
<td>$31,139</td>
<td>$20,482</td>
<td>$17,594</td>
</tr>
<tr>
<td>$20,000</td>
<td>$31,139</td>
<td>$22,396</td>
<td>$20,215</td>
</tr>
<tr>
<td>$15,000</td>
<td>$31,139</td>
<td>$20,482</td>
<td>$17,594</td>
</tr>
<tr>
<td>$10,000</td>
<td>$31,139</td>
<td>$22,396</td>
<td>$20,215</td>
</tr>
<tr>
<td>$5,000</td>
<td>$31,139</td>
<td>$20,482</td>
<td>$17,594</td>
</tr>
<tr>
<td>$0</td>
<td>$31,139</td>
<td>$22,396</td>
<td>$20,215</td>
</tr>
</tbody>
</table>

Assumptions: A 20-year comparison based on a $10,000 pre-tax bonus payment. Total return is 8% pa (split 3% income and 5% growth). The overall franking level on investment income is 25%. All figures are after income tax (at 15% on super and 41.5% or 46.5% on non-super), capital gains tax (including discounting) and lump sum tax (does not include the low-tax threshold). These rates are assumed to remain constant over the investment period.

What about tax-free benefits for the over 60s?

The Government has proposed from 1 July 2007, all benefits received from a taxed super fund (see Glossary) at age 60 or over will be tax-free. If this proposal is legislated, the salary sacrifice result would increase to $37,293 for marginal tax rates of 46.5% and 41.5%. Also, the super (undeducted) results will increase to $23,472 and $25,666 for marginal tax rates of 46.5% and 41.5%, respectively. This is because, in 20 years, William will be over age 60 when he accesses his super and will not need to pay lump sum tax on his benefit.

Tips and traps

• A salary sacrifice arrangement may result in a reduction in other benefits such as leave loading, holiday pay and Superannuation Guarantee contributions, as these benefits are often calculated on your base salary.

• It may be worthwhile converting your home loan to interest-only and contributing pre-tax salary into super via salary sacrifice (see Strategy 2).

• If you are aged 55 or over and still working, you may want to sacrifice a portion of your pre-tax salary into super and commence a non-commutable allocated pension to replace your income shortfall (see Strategy 3).

• If eligible, there may be an advantage in splitting some of your salary sacrifice (or other super) contributions with your spouse (see Strategy 4).

• If you’re an employee (and your assessable income plus reportable fringe benefits is less than $58,000 pa.) you may want to consider making a personal after-tax super contribution of $1,000. This may enable you to qualify for a Government co-contribution of up to $1,500 (see Strategy 5).

• Before agreeing to a salary-packaging request, employers should ensure the amount to be sacrificed, plus the employee’s Superannuation Guarantee or employer discretionary contributions, does not exceed the relevant age-based Maximum Deductible Contribution limit in 2006/07 (see FAQs on page 28).

• Although it is possible to sacrifice salary below the minimum entitlement under an industrial award, employers should be aware they may still be required to provide the minimum salary or wages under industrial law.
Divert cashflow from your home loan into super

Many people opt for a home loan that requires principal and interest (P&I) repayments. However, if you want to maximise your retirement savings, you may be better off switching your home loan to interest-only and contributing pre-tax salary into super via salary sacrifice (see Strategy 1).

How does the strategy work?

To use this strategy, you need to refinance your home loan. Most lending institutions offer interest-only loans with a choice of fixed and variable interest rates.

By not making principal repayments, your surplus cashflow* will increase, giving you the opportunity to sacrifice an equivalent amount of pre-tax salary into your super fund.

Because your debt will remain the same, you’ll pay more interest over the life of the loan. You’ll also need to repay the loan, in full, at a later date (eg by cashing out some of your super when you meet a condition of release – see FAQs on page 30).

You still have the potential to come out ahead as salary sacrifice contributions are made from your pre-tax salary and are taxed at a maximum rate of 15%. Conversely, home loan principal repayments are made from your after-tax salary (ie after tax is deducted at your marginal rate of up to 46.5%*).

While results will depend on factors such as your marginal tax rate, home loan interest rate, investment returns and your time horizon, diverting cashflow from your home loan to super can be a powerful strategy.

* In this context, surplus cashflow is your after-tax income from all sources, less your living expenses and home loan repayments.
# Includes a Medicare Levy of 1.5%.

Strategy # 02

The benefits

• Use your cashflow more tax-effectively, by investing pre-tax money in super rather than making home loan repayments from your after-tax salary.
• Build more wealth to support yourself in retirement.
Case study

Rodney, aged 50, pays tax at a marginal rate of 41.5%*. His home loan is $250,000 and the current interest rate is 7.5% pa. He is making the minimum P&I repayment of $2,968 per month over a ten-year term. He is looking to build his retirement savings, but currently doesn’t have any surplus cashflow to do this.

If he switches to an interest-only loan at an interest rate of 7.5%, his repayment will reduce to $1,563 per month. This will free-up $1,405 in cashflow each month and enable him to invest a pre-tax amount of $2,402* per month in super via salary sacrifice.

<table>
<thead>
<tr>
<th>Per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;I repayment</td>
</tr>
<tr>
<td>Less interest-only repayment</td>
</tr>
<tr>
<td>Surplus cashflow created by refinancing</td>
</tr>
<tr>
<td>Pre-tax amount available to salary sacrifice</td>
</tr>
</tbody>
</table>

The next table shows the value added by this strategy in ten years, after cashing out his super, paying lump sum tax and repaying the debt of $250,000. By using his cashflow more tax-effectively, he has accumulated an additional $51,703 in super for his retirement, despite paying more home loan interest.

<table>
<thead>
<tr>
<th>In ten years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of salary sacrifice contributions (including earnings)</td>
</tr>
<tr>
<td>Less lump sum tax at 16.5%*</td>
</tr>
<tr>
<td>Less amount withdrawn from super to repay home loan</td>
</tr>
<tr>
<td>Net value of salary sacrifice contributions (including earnings)</td>
</tr>
</tbody>
</table>

* Includes a Medicare Levy of 1.5%.

# The salary sacrifice amount of $2,402 per month, less tax at his marginal rate of 41.5% (ie $997) is the pre-tax equivalent of his surplus cashflow of $1,405 per month.

Assumptions: A ten-year comparison. The salary sacrifice super contributions earn a total return of 8% pa (split 3% income and 5% growth). The overall franking level on investment income is 25%. The home loan interest rate is 7.5%. All figures are after income tax of 15% on super, capital gains tax (including discounting), lump sum tax (does not include the low-tax threshold), home loan interest and repayment of the home loan. These rates are assumed to remain constant over the investment period.

What about tax-free benefits for the over 60s?

The Government has proposed from 1 July 2007, all benefits received from a taxed super fund (see Glossary) at age 60 or over will be tax-free. If this proposal is legislated, the value added by this strategy will increase to $111,321. This is because, in ten years, Rodney will be aged 60 when he accesses his super and will not need to pay lump sum tax on his benefit.

Tips and traps

- Some lending institutions may charge fees when you refinance your home loan to interest-only.
- Salary sacrifice super contributions can’t be accessed until you meet a condition of release – see FAQs on page 30.
- Salary sacrifice (and other employer super) contributions cannot exceed certain limits – see FAQs on page 28.
- There may be an advantage in splitting some of your salary sacrifice (or other super) contributions with your spouse (see Strategy 4).
- If you have surplus cashflow before you refinance to an interest only loan, you could use this to make additional principal repayments, or contribute an equivalent pre-tax amount into super via salary sacrifice. To find out the best option for you, seek financial advice.
- There is a legislative risk that a future Government may restrict lump sum withdrawals from a super fund. This could limit your ability to pay off the loan, unless you have other savings.

• Some lending institutions may charge fees when you refinance your home loan to interest-only.
• Salary sacrifice super contributions can’t be accessed until you meet a condition of release – see FAQs on page 30.
• Salary sacrifice (and other employer super) contributions cannot exceed certain limits – see FAQs on page 28.
• There may be an advantage in splitting some of your salary sacrifice (or other super) contributions with your spouse (see Strategy 4).
• If you have surplus cashflow before you refinance to an interest only loan, you could use this to make additional principal repayments, or contribute an equivalent pre-tax amount into super via salary sacrifice. To find out the best option for you, seek financial advice.
• There is a legislative risk that a future Government may restrict lump sum withdrawals from a super fund. This could limit your ability to pay off the loan, unless you have other savings.
In Strategy 1, we explained why you might want to make salary sacrifice contributions into super. If you are 55 years of age or older and still working, you could consider combining salary sacrifice with a non-commutable allocated pension (NCAP). By using this strategy, you may be able to build a bigger retirement nest egg without compromising your current lifestyle.

How does the strategy work?
This strategy involves:

• Arranging with your employer to sacrifice part of your prospective pre-tax salary directly into a super fund
• Investing some of your existing super in a NCAP, and
• Using the regular payments from the NCAP to replace the income you sacrifice into super.

By taking these steps, it’s possible to accumulate more funds for your retirement. This is due to a range of potential advantages, including:

• Less tax on contributions, as salary sacrifice super contributions are taxed at up to 15%, rather than marginal rates of up to 46.5%*
• Less tax on income, as part of the income payments from the NCAP may be tax-exempt and the taxable portion will attract a tax offset of up to 15%
• Less tax on earnings, as investment earnings in a NCAP are only taxed when received as part of the income payments.

While any income stream that meets certain commutation restrictions can be used when implementing this strategy, a NCAP offers a number of distinct advantages.

For example, you can take a cash lump sum once you meet another condition of release (see FAQs on page 30). You can also choose an income within legislated minimum and maximum limits. This level of flexibility is generally not available with a complying income stream (e.g., a non-commutable term allocated pension).

* Includes a Medicare Levy of 1.5%.

Note: The Australian Taxation Office (ATO) has confirmed straightforward arrangements involving a NCAP and salary sacrifice should not result in adverse tax consequences and penalties under the general anti-avoidance provisions. However, if the strategy is artificial or contrived, it is likely to attract ATO attention.
Case study

Craig (aged 55), earns a pre-tax salary of $90,000 pa and receives 9% Superannuation Guarantee (SG) contributions. He decides to reduce his pre-tax salary to $55,000 pa and sacrifices $35,000 pa into his super fund. To receive the same after-tax income he commences a NCAP and elects to receive taxable income payments of $27,313 in the first year.

Note: We have assumed Craig continues to receive 9% SG based on his package of $90,000 pa., even after he sacrifices $35,000 pa into his super fund.

Before strategy | After strategy
---|---
Pre-tax salary | $90,000 | $55,000
NCAP income | Nil | $27,313
Total pre-tax income | $90,000 | $82,313
Less tax payable* | ($25,200) | ($17,513)
After-tax income | $64,800 | $64,800
SG contributions | $8,100 | $8,100
Salary sacrifice contributions | Nil | $35,000

* Takes into account the Mature Age Worker Tax Offset. Where the NCAP is used, we have assumed Craig is within his Reasonable Benefit Limit (RBL) — see FAQs on page 31 — and is therefore entitled to the full 15% pension offset. We have also assumed Craig is not entitled to a tax-exempt deductible amount (see Glossary).

While the after-tax income and SG contributions are exactly the same in both scenarios, this strategy has the potential to increase Craig’s retirement savings. This is partly because Craig will invest more money in super each year than he will withdraw from his NCAP. For example, in the first year, while Craig will receive an income of $27,313 from the NCAP, he will invest a net amount of $29,750 in his super fund (i.e., $35,000 less 15% contributions tax = $29,750). That’s an extra $2,437 in the first twelve months alone. Also, money invested in the NCAP is only subject to tax when received as income, versus tax at up to 15% applying to earnings accumulating in the accrual phase in super.

If we assume Craig has $325,000 in super (consisting entirely of the post-June 1983 component) and invests this amount in a NCAP, the next table shows the value added by this strategy over various time periods.

<table>
<thead>
<tr>
<th>After year…</th>
<th>Value of investments Before strategy (super only)</th>
<th>Value of investments After strategy (super and NCAP)</th>
<th>Value added by strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$358,036</td>
<td>$362,351</td>
<td>$4,315</td>
</tr>
<tr>
<td>5</td>
<td>$518,640</td>
<td>$543,882</td>
<td>$25,242</td>
</tr>
<tr>
<td>10</td>
<td>$802,583</td>
<td>$864,666</td>
<td>$62,083</td>
</tr>
</tbody>
</table>

* Other assumptions: Both the super and NCAP investment earn a total pre-tax return of 8% pa (split 3% income and 5% growth). The overall franking level on investment income is 25%. Salary doesn’t change over the ten-year period. Neither the super nor NCAP investment are cashed out.

Tips and traps

- When using this strategy, there are some limitations that need to be considered. For example:
  - To replace a high level of salary (when sacrificed into super), you may need to invest a large amount in a NCAP.
  - The salary sacrifice (and other employer super) contributions cannot exceed certain limits (see FAQs on page 28.)
  - If your SG contributions are based on your reduced salary amount, this strategy could erode your wealth.

- Certain access restrictions apply when investing super in a NCAP (or other non-commutable income stream — see your adviser for more details).

- There may be an advantage in splitting some of your salary sacrifice (or other super) contributions with your spouse (see Strategy 4).

- A NCIS could also be used to top-up your salary when reducing your working hours.

What about tax-free benefits for the over 60s?

The Government has proposed from 1 July 2007, no tax will be payable at age 60 or over on income stream investments paid from a taxed super fund (see Glossary). If this proposal is legislated, the value added by this strategy after 10 years will increase to $94,284. This is because, between years five and ten, Craig will be over age 60 and will therefore receive tax-free income payments from the NCAP.
Split your way to a better retirement

If you have a spouse, you may want to split some of the super contributions you receive after 31 December 2005 into their account. By using this strategy, you could receive your combined super balances in a more tax-effective manner prior to age 60.

For example, by accumulating super in two names, splitting contributions could enable you to:
- Gain access to two low-tax thresholds (of $135,590 in 2006/07) when making a lump sum withdrawal from the post-June 1983 component (see case study).
- Commence two retirement income streams (such as an allocated pension) and take advantage of two sets of personal tax thresholds, as well as pension offsets of up to 15% on the taxable income payments.

How does the strategy work?

As a general rule, you need to apply to the super fund after the end of each financial year if you want to split the contributions you receive in the previous financial year*.

However, if you close your account to commence an income stream or rollover the proceeds to another super provider, some funds may allow you to split the contributions you receive during the financial year up until the point of rollover.

The maximum amount you can split is:
- Up to 85% of your taxable contributions ie all employer contributions (including salary sacrifice – see Strategy 1) and personal deductible contributions.
- Up to 100% of your untaxed contributions, ie personal undeducted contributions, Government co-contributions (see Strategy 5) and spouse contributions (see FAQs on page 29).

To use this strategy, you and your spouse must be in a married (or de facto) relationship, but you can’t be same sex partners. Also, to receive a contribution split, your spouse must be under 55 years of age or, if between 55 and 64 years, they must meet certain conditions (see FAQs on page 29).

* For the financial year ending 30 June 2006, only contributions received between 1 January 2006 and 30 June 2006 can be split.

Strategy #

The benefits

- Reduce tax on super benefits received before age 60.
- Retain more of your super to meet your needs in retirement.
Case study

Harry (aged 48) is married to Ruth (aged 46). They plan to access their super in ten years (ie before either of them reaches age 60). Harry currently has $200,000 in super, consisting entirely of the post-June 1983 component and Ruth has not received any super contributions.

Because Harry’s super already exceeds the tax-free threshold on the post-June 1983 component of $135,590 in 2006/07, any additional employer contributions (and future investment earnings) will be taxed at 16.5%* if received by him as a lump sum between age 55 and 59.

To reduce the amount of tax payable, Harry instead arranges to split 85% of his employer’s contributions with Ruth over the next ten years. As a result, she accumulates $100,000 in super. Because her account balance is well within the tax-free threshold, Ruth will not have to pay lump sum tax of 16.5%* on her benefit – a tax saving to the couple of $16,500.

<table>
<thead>
<tr>
<th></th>
<th>If retained by Harry</th>
<th>If received by Ruth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Split amount (including earnings)</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Lump sum tax rate payable</td>
<td>16.5%*</td>
<td>Nil</td>
</tr>
<tr>
<td>Lump sum tax payable</td>
<td>$16,500</td>
<td>Nil</td>
</tr>
</tbody>
</table>

* Includes a Medicare Levy of 1.5%.

Given the tax-free threshold is indexed each year, there is considerable scope for Ruth to accumulate additional tax-free benefits. This could be achieved, for example, if Harry makes salary sacrifice contributions into his super fund and splits up to 85% of these into Ruth’s super account.

What about tax-free benefits for the over 60s?

If you plan to receive benefits from a taxed super fund (see Glossary) at age 60 or over after 1 July 2007, splitting is unlikely to provide any tax advantages. This is because the Government has proposed you won’t have to pay any tax on your super benefits.

However, if this proposal is legislated, there may be some other reasons for using a splitting strategy. These include to:

- Transfer contributions to an older spouse, who will reach age 60 earlier and will be able to receive tax-free benefits upon reaching this age.
- Provide some protection against the legislative risk that a future Government will re-introduce some form of taxation on end super benefits for people aged 60 or over.

Tips and traps

- Not all funds offer splitting and some are not eligible to participate (eg the defined benefit component of any super interest is excluded).
- Funds offering splitting are likely to have their own rules and limits. For example, some funds may limit the split to ensure a minimum account balance remains.
- Certain amounts can’t be split. For instance, once contributions have been rolled over to another fund, they cannot be re-directed to your spouse.
- Before you split super contributions, you should determine whether the potential benefits outweigh the costs (including any splitting fees or capital gains tax that may be payable).
- After splitting super contributions, there may be tax or estate planning advantages if you (or your spouse) cash-out and re-contribute a portion of your super benefits before commencing an income stream.
- Rather than making undeducted contributions and splitting them with your spouse, it may be easier (and possibly more tax-effective) for contributions to be made directly to your spouse’s account. For example, if your spouse makes their own undeducted contributions, they may qualify for a co-contribution of up to $1,500 (see Strategy 5).
Top-up your super with help from the Government

If you are a lower income employee you may want to make personal after-tax (undeducted) contributions to a super fund. By implementing this strategy, you can boost your retirement savings and possibly receive a Government co-contribution of up to $1,500 each year.

Another benefit is that your own contributions (as well as any associated co-contributions) aren’t taxed on entering the super fund and can be received tax-free in retirement – either as a lump sum or as part of the regular payments from an income stream investment.

Also, investment earnings in a super fund are taxed at a maximum rate of 15%, which is likely to be lower than the marginal tax rate you pay when investing outside super.

How does the strategy work?

To qualify* for the full co-contribution ($1,500) you generally need to make a personal after-tax super contribution of $1,000 and earn* less than $28,000 pa. However, a reduced amount may be paid if you contribute less than $1,000 and/or your earn* between $28,000 pa and $58,000 pa.

The Australian Taxation Office (ATO) will determine if you qualify based on the data received from your super fund (usually by 31 October each year for the preceding financial year) and the information contained in your tax return. As a result, there can be a time lag between when you make your personal after-tax contribution and when the Government pays the co-contribution.

If you are eligible for the co-contribution, you can nominate which fund you would like to receive the payment. Alternatively, if you don’t make a nomination and you have more than one account, the ATO will pay the money into one of your funds based on set criteria.

* Other eligibility conditions apply (see FAQs on page 29).
* Includes assessable income plus reportable fringe benefits.

Note: Some funds or superannuation interests may not be able to receive co-contributions. This includes unfunded public sector schemes, defined benefit interests, traditional policies (such as endowment or whole of life) and insurance only superannuation interests.

The benefits

- Receive a co-contribution from the Government of up to $1,500 pa.
- Increase your retirement savings in a tax-effective manner.
Tips and traps

• Personal after-tax contributions (as well as any associated co-contributions) can’t be accessed until you meet a condition of release – see FAQs on page 30.

• Make sure you supply your super fund with your Tax File Number so that the ATO can correctly determine your entitlement to a co-contribution.

• If you are a higher income earner and you are currently making salary sacrifice contributions (see Strategy 1), your lower income spouse (if applicable) may also want to make an after-tax contribution so they can qualify for a co-contribution. If you have insufficient cash flow to do both, there may be an advantage if you forgo a portion of your salary sacrifice contributions and have your spouse invest the after-tax proceeds into their super account instead.

• If you want to maximise your eligibility for a co-contribution, salary sacrificing into super could enable you to reduce your income below $58,000 pa (so that you qualify for a part-co-contribution) or $28,000 pa (to qualify for a full co-contribution).

• A co-contribution could be used to purchase insurance through a super fund (see Strategy 6). Alternatively, insurance purchased through a super fund may attract a co-contribution that could be used to top-up your super investments or purchase even more insurance cover.

• You could also consider making an after-tax contribution of $3,000 into a super fund on behalf of your spouse. If they earn less than $13,800 pa., this may entitle you to a spouse offset of up to $540 (see FAQs on page 29).

Case study

Ryan (aged 40) is employed and earns $36,000* pa. He wants to invest $1,000 per year (from his after-tax salary) so he can build his retirement savings.

If he invests the $1,000 outside super each year (in a unit trust, for example), the earnings will be taxable at his marginal rate of 31.5%. If he invests the money in super as a personal after-tax contribution, the earnings will only be taxed at a maximum rate of 15%, and he will be entitled to a co-contribution of $1,100 per year.

The graph below compares these two approaches if they are maintained over 20 years until Ryan is age 60. The combined effect of receiving co-contributions and the lower tax rate on investment earnings will make a big difference to his wealth in retirement.

* Includes assessable income plus reportable fringe benefits.
# Includes a Medicare Levy of 1.5%.

Assumptions: A 20-year comparison based on an after-tax investment of $1,000 pa. The super investment (only) attracts a co-contribution of $1,100 pa. Total return is 8% pa (split 3% income and 5% growth). The overall franking level on investment income is 25%. All figures are after income tax (at 15% for super and 31.5% for non-super), capital gains tax (including discounting) and lump sum tax (does not include the low-tax threshold). These rates are assumed to remain constant over the investment period.

What about tax-free benefits for the over 60s?

The Government has proposed from 1 July 2007, all benefits received from a taxed super fund (see Glossary) at age 60 or over will be tax-free. If this proposal is legislated, the result in the graph above for investing in super will increase to $94,270. This is because, in 20 years, Ryan will be aged 60 when he accesses his super and will not need to pay lump sum tax on his benefit.
Many people take out insurance via a personal policy in their own name. However, if you’re able to make salary sacrifice contributions, you’re eligible for a Government co-contribution, you have a low-income spouse or you’re self-employed, you should consider the benefits of insuring through a super fund.

By holding life and total and permanent disability (TPD) insurance through super, you may be able to reduce the effective cost of your premiums – in some cases by up to 46.5%*. When you take into account the potential tax savings, it’s also possible to purchase a higher level of cover, when compared to insuring outside super.

How does the strategy work?

The same tax deductions and offsets that apply when investing in super also apply to insurance purchased through a super fund.

- **If you’re eligible to make salary sacrifice contributions** (see Strategy 1), you may be able to purchase insurance through a super fund with pre-tax dollars.

- **If you’re employed, earn less than $58,000 pa and make personal after-tax (undeducted) super contributions**, you may be eligible to receive a Government co-contribution (see Strategy 5) that could help you cover the cost of insurance.

- **If you make super contributions on behalf of a low-income spouse**, you may be able to claim a tax offset of up to $540 pa (see FAQs on page 29) that could be put towards insurance premiums for you or your spouse.

- **If you’re self-employed in the 2006/07 financial year** you can generally claim the bulk of your super contributions as a tax deduction (up to your age-based Maximum Deductible Contribution limit – see FAQs on page 28), regardless of whether the contributions are used by the super fund to purchase super investments or insurance.

These tax outcomes can make it significantly cheaper to insure through a super fund. All you need to do is nominate how your contributions should be allocated between your super investments and your insurance policy.

The benefits

- Reduce the cost of your life and TPD insurance premiums.
- Purchase a higher level of cover when compared to insuring outside super.

* Includes a Medicare Levy of 1.5%.

### Strategy #06

The benefits

- Reduce the cost of your life and TPD insurance premiums.
- Purchase a higher level of cover when compared to insuring outside super.

# Includes assessable income plus reportable fringe benefits.
Case study

Andrew (aged 38) earns a salary of $80,000 pa. He is married with young children and has a large mortgage.

His employer’s super fund already provides life and TPD insurance. He needs additional cover to help his family pay off their debts and replace his income, should the unthinkable happen. The premium for this additional insurance is $1,170 pa.

If he takes out the additional cover through a personal insurance policy (outside super), he will need to pay the annual premium from his after-tax salary. The pre-tax cost will therefore be $2,000 (ie $2,000 less tax at his marginal rate of 41.5%* is $1,170).

After speaking to his adviser, Andrew decides to take out an equivalent level of cover through his super fund. He arranges for his employer to sacrifice $1,170 of his pre-tax salary into his fund and instructs the fund administrator to use this contribution to pay for the insurance premiums.

Because super funds receive a tax deduction for death and disability premiums, no contributions tax will be deducted from Andrew’s super contribution. As a result, he will be able to purchase the insurance through his super fund with pre-tax dollars and make a pre-tax saving* of $830 on the first year’s premiums.

<table>
<thead>
<tr>
<th>Insurance purchased</th>
<th>Insurance purchased</th>
</tr>
</thead>
<tbody>
<tr>
<td>outside super</td>
<td>within super</td>
</tr>
<tr>
<td>(with after-tax salary)</td>
<td>(via salary sacrifice)</td>
</tr>
<tr>
<td>Insurance premium (pa..)</td>
<td>$1,170</td>
</tr>
<tr>
<td>Plus income tax payable on salary at 41.5%*</td>
<td>$830</td>
</tr>
<tr>
<td>Pre-tax cost of insurance</td>
<td>$2,000</td>
</tr>
<tr>
<td>Pr-tax saving*</td>
<td>$830</td>
</tr>
</tbody>
</table>

* Includes a Medicare Levy of 1.5%.

What about the Federal Budget proposals?

In the 2006/07 financial year, when death benefits (including insurance) are paid as a lump sum from a taxed super fund (see Glossary):

- No tax is payable by your dependants on amounts up to your unused Pension Reasonable Benefit Limit (RBL – see FAQs on page 31)
- Tax of up to 46.5%* is payable by any beneficiary on amounts exceeding your unused Pension RBL.

The Government has proposed from 1 July 2007, all lump sum death benefits from a taxed super fund will be tax-free when received by a dependant. If this proposal is legislated, it will provide additional incentive to take out insurance through super.
Move assets into super and minimise tax

There are a number of good reasons for setting up your own self-managed super fund (SMSF) or investing via a public offer discretionary master trust (see Glossary). You have a broad choice of managed and direct investments and can decide when assets are bought and sold.

Another key benefit is you can usually transfer the ownership of certain assets directly into your fund. By making what is known as an ‘in specie’ super contribution, you can take advantage of the low tax rate on investment earnings and make your retirement savings work harder.

How does the strategy work?

If you own an asset outside super, you pay tax on the investment earnings at your marginal rate (which could be as high as 46.5%). However, if you transfer the ownership of certain assets into super, the investment earnings will only be taxed at a maximum rate of 15% – a tax saving of up to 31.5% pa.

Admittedly, the change in ownership of the asset may mean that capital gains tax (CGT) is payable. Nevertheless, the long-term benefits of a lower tax rate on investment earnings may more than compensate for any potential CGT liability.

You may also be able to minimise your CGT liability if you have any accumulated capital losses or you’re eligible to claim your super contributions as a tax-deduction (see Strategy 9).

* Includes a Medicare Levy of 1.5%.

Note: In specie (and other super) contributions can’t be accessed until you meet a condition of release – see FAQs on page 30. If you don’t need to access the money until you retire, this shouldn’t be an issue, provided you have sufficient cash outside super to cover any unexpected expenses or emergencies.

Strategy #

07

The benefits

- Reduce tax payable on investment earnings.
- Increase the after-tax benefit available for retirement significantly.
Case study

Kate (aged 40) owns shares she bought several years ago for $25,000. They’re currently worth $50,000 and she plans to use them to fund her retirement. After speaking to her adviser, she decides to contribute the shares in specie into her self-managed super fund to take advantage of the lower tax rate on investment earnings.

By transferring ownership of the shares, she’ll need to pay $5,188 in CGT*. Assuming she sells some of the shares to cover her CGT liability, Kate will be able to invest a net amount of $44,812 in her super fund, as a personal after-tax (undeducted) super contribution.

The following graph compares the results after 20 years of making an in specie contribution with keeping the shares in her own name.

* Assumes Kate pays tax at a marginal rate of 41.5% (including a Medicare Levy of 1.5%) and is unable to claim her super contribution as a tax-deduction. She also adopts the 50% CGT discount method when working out her taxable capital gain and has no capital losses.

Tips and traps

• Under superannuation law, only certain types of assets can be acquired by a fund from a member or relative. This includes shares held in your own name (that are listed on an approved stock exchange), business real property (see Glossary), and widely held unit trusts. The ability to acquire an asset from a member will also be subject to the particular rules of the super fund.

• If you are considering a SMSF, you should be aware there are strict membership and Trustee rules (including the requirement that all members of the fund are Trustees). As a Trustee, you are responsible for the general running of the fund, as well as compliance with the trust deed and superannuation law.

• If you want greater investment flexibility without the burden of running your own fund, a public offer discretionary master trust may be a more viable alternative. These funds offer you an extensive range of investments and usually allow you to make in specie contributions.

• Stamp Duty may be payable on the in specie transfer in some States and Territories.

• With some assets (like shares and managed investments) it may be simpler to sell the asset, contribute the proceeds into super and re-purchase the same asset in your super fund.

Assumptions: A 20-year comparison. Total return is 8.5% pa (split 3% income and 5.5% growth). All dividends are re-invested. All dividend income assumes a franking level of 75%. All figures are after income tax (at 41.5% for non-super and 15% for super). These rates are assumed to remain constant over the investment period.

By transferring her shares into super, Kate will have approximately $23,000 more for retirement (before CGT). Also, if she uses this money to commence a tax-effective income stream within her SMSF (eg an allocated pension), no CGT will be payable. Under the current rules, any assets sold during the pension phase of a super fund are not taxable.

Conversely, if she had stuck with her original strategy (ie kept the shares in her own name), CGT would have been payable if she needed to sell her shares to meet her lifestyle needs in retirement.
Rollover an employer ETP and reduce your tax

On leaving your employer, you may be entitled to an Eligible Termination Payment (ETP) that can be taken as cash or rolled over to a super fund in the 2006/07 financial year. Examples can include the taxable component of a redundancy payment and an ex-gratia payment, such as a golden handshake (see Glossary).

For some people, cashing out some (or all) of an employer ETP could be a sensible strategy. Particularly if you have non tax-deductible debts (eg a mortgage), you need extra cash to meet your living expenses or you need to retain access to the money*.

If you want to pay less tax and maximise your retirement savings, rolling over an employer ETP could be a smarter alternative.

* Employer ETPs rolled over to a super or rollover fund after 1 July 2004 generally cannot be accessed until you meet a condition of release (see FAQs on page 30).

How does the strategy work?

Tax is usually payable on an employer ETP, regardless of how you receive the payment. However, as a general rule, the initial tax bill will be less if you elect to rollover the money.

Also, once the payment is invested in a super fund, earnings are taxed at a maximum rate of 15%. If cashed out, earnings from non-super investments are taxed at your marginal rate (which could be as high as 46.5%)

The table below summarises the tax rules that apply in the 2006/07 financial year, assuming your payment falls within your ‘Reasonable Benefit Limit’ (see FAQs on page 31).

<table>
<thead>
<tr>
<th>Strategy #</th>
<th>08</th>
</tr>
</thead>
</table>

The benefits

- Pay less tax when you receive your benefit.
- Take advantage of a maximum tax rate of 15% on investment earnings.
- Build more wealth to support yourself in retirement.
Case study

Brendan (aged 40) has been with his employer for ten years and is about to change jobs. He has earned a salary of $90,000 this financial year and anticipates receiving an employer ETP of $60,000 on termination of employment. After tax is taken into account, rolling over his payment to a super fund will enable Brendan to invest an additional $9,900.

<table>
<thead>
<tr>
<th></th>
<th>Cash-out ETP</th>
<th>Rollover ETP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer ETP</td>
<td>$60,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Less lump sum tax at 31.5%</td>
<td>($18,900)</td>
<td>(N/A)</td>
</tr>
<tr>
<td>Less contributions tax at 15%</td>
<td>(N/A)</td>
<td>($9,000)</td>
</tr>
<tr>
<td>Net amount to invest</td>
<td>$41,100</td>
<td>$51,000</td>
</tr>
<tr>
<td><strong>Additional amount to invest</strong></td>
<td><strong>$9,900</strong></td>
<td></td>
</tr>
</tbody>
</table>

Let’s now assume Brendan retires in 20 years. The maximum tax rate of 15% on investment earnings in super has made a big difference, with the super investment worth over $44,000 more than the non-super alternative.

Assumptions: A 20 year comparison. Total return is 8% pa (split 3% income and 5% growth). All income is re-invested. The overall franking level on investment income is 25%. All figures are after income tax (at 41.5% for non-super and 15% for super), capital gains tax (including discounting) and lump sum tax on withdrawal from the super fund at age 60 (does not include the low-tax threshold). These rates are assumed to remain constant over the investment period.

What about tax-free benefits for the over 60s?

The Government has proposed from 1 July 2007, all benefits received from a taxed super fund (see Glossary) at age 60 or over will be tax-free. If this proposal is legislated, the result from rolling over to super would increase to $223,755. This is because, in 20 years, Brendan will be aged 60 when he accesses his super and will not need to pay lump sum tax on his benefit.

Tips and traps

- On leaving your employer, you may be entitled to a range of payments that must be taken as cash (eg your final pay, annual leave, long-service leave and the tax-free component of a redundancy payment). These payments should generally be used up first if you need cash to cover your living expenses or pay-off non tax-deductible debts.

- If your position has been made redundant, you should keep in mind that rolling over your employer ETP may help you to maximise your entitlement to social security benefits, such as the Newstart Allowance.

- If you rollover your employer ETP (and your super fund has a pre-July 1983 service period) the valuable pre-July 1983 component will be applied to your employer ETP in 2006/07. As a result, only 5% of the pre-July 1983 component will be taxed at your marginal rate if the benefit is later cashed out.

- It may be more tax-effective if you rollover an employer ETP and defer receiving a benefit until after 1 July 2007, when the Government has proposed that RBLs will be abolished and all benefits received from a taxed super fund (see Glossary) will be tax-free when received by people aged 60 or over.

- Unless you qualify for certain transitional arrangements, the Government has proposed it will only be possible to receive an employer ETP as cash from 1 July 2007 and taxable amounts exceeding $140,000 will be taxed at the top marginal rate of 46.5% (including a Medicare Levy of 1.5%). Retiring or leaving your employer before 1 July 2007 could enable you to rollover the payment to super, or pay less tax on larger amounts.
Contribute to super and offset CGT

If you have recently sold (or plan to sell) an asset, Capital Gains Tax (CGT) could remove up to 46.5%* of your profit. The good news is there are a number of strategies available that enable you to legitimately minimise your CGT liability.

If you are self-employed or under 65 and recently retired, one approach could involve making a tax-deductible contribution into a super fund. By implementing this strategy, you can save on CGT and make a larger after-tax investment.

* Includes a Medicare Levy of 1.5%.

How does the strategy work?

To use this strategy, you must be able to contribute to super (e.g., you must be under age 65 or, if between 65 and 70, you must have been gainfully employed for at least 40 hours over a consecutive 30 day period during the relevant financial year).

In addition, you must generally receive less than 10% of your assessable income (plus reportable fringe benefits) from eligible employment.

If you meet these conditions in the 2006/07 financial year, you can usually claim a tax deduction for the first $5,000 that you contribute to super, plus 75% of the balance up to your relevant aged-based Maximum Deductible Contribution limit (see FAQs on page 28). The tax deduction can then be used to offset some (or all) of your taxable capital gain and reduce your CGT liability.

While the tax-deductible portion of your super contribution will attract a contributions tax of 15%, the net tax savings can still be quite significant, as the case study clearly illustrates.

The benefits

- Reduce or even eliminate CGT on the sale of ordinary investments by making tax-deductible contributions to super.
- Take advantage of a maximum tax rate of 15% on investment earnings.
Tips and traps

• To offset your capital gain, the tax-deductible super contribution needs to be made in the same financial year in which the asset is sold.

• If you use this strategy, the non tax-deductible component of your super contribution is treated as an undeducted contribution (see Glossary). Undeducted contributions do not attract contributions tax and are returned tax-free if withdrawn as a cash lump sum. They also form part of the tax-exempt deductible amount if you use your super to purchase a retirement income stream investment, such as an allocated pension.

• You may want to consider contributing more into super than the minimum required to offset your CGT liability. The additional tax deduction could then be used to reduce your tax bill if you earn income from other sources (eg from self-employment).

• Rather than selling an asset and transferring the after-tax proceeds into superannuation, it may be possible to contribute certain qualifying assets into super in specie (see Strategy 7). While the transfer may still result in CGT being payable, this may be offset by claiming a portion of the in specie contribution as a tax deduction.

Case study

Lisa (aged 38) is self-employed and earns a taxable income of $80,000 pa. She also recently received $50,000 from the sale of some shares she owned for the last ten years – including a capital gain of $25,000.

Assuming Lisa adopts the 50% CGT discount method when working out her taxable capital gain (and she has no capital losses), she will need to pay $5,188 in tax on her shares at her marginal rate 41.5%.

Before strategy

<table>
<thead>
<tr>
<th>Assessable capital gain</th>
<th>$25,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less 50% CGT discount</td>
<td>($12,500)</td>
</tr>
<tr>
<td>Taxable capital gain</td>
<td>$12,500</td>
</tr>
<tr>
<td><strong>CGT payable at 41.5%</strong></td>
<td><strong>$5,188</strong></td>
</tr>
</tbody>
</table>

After speaking to her financial adviser, Lisa decides to contribute $15,000 from the sale of her shares into super, entitling her to a tax deduction of $12,500 in 2006/07. By implementing this strategy, she will be able to offset her taxable capital gain and eliminate her CGT liability of $5,188. After taking into account the tax payable on her super contribution ($1,875), Lisa will be able to reduce her overall tax bill by $3,313.

* Includes a Medicare Levy of 1.5%.

After strategy

<table>
<thead>
<tr>
<th>Assessable capital gain</th>
<th>$25,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less 50% CGT discount</td>
<td>($12,500)</td>
</tr>
<tr>
<td>Taxable capital gain</td>
<td>$12,500</td>
</tr>
<tr>
<td>Less tax deduction for super contribution*</td>
<td>($12,500)</td>
</tr>
<tr>
<td>Net taxable gain</td>
<td>Nil</td>
</tr>
<tr>
<td>CGT saved</td>
<td>$5,188</td>
</tr>
<tr>
<td>Less 15% super contributions tax^</td>
<td>($1,875)</td>
</tr>
<tr>
<td><strong>Net tax saving</strong></td>
<td><strong>$3,313</strong></td>
</tr>
</tbody>
</table>

Before strategy

Before strategy

# The tax deduction of $12,500 is well within Lisa’s aged-based Maximum Deductible Contribution limit (see FAQs on page 28) of $42,385 in 2006/07 and is calculated as follows \([5,000 + 75\% \times (15,000 – 5,000)] = 12,500\).

^ A contributions tax of 15% will be payable on the tax-deductible component of Lisa’s super contribution (ie $12,500).
Convert business capital into tax-free retirement benefits

If you are a small business owner, chances are you may not have invested much in super, preferring instead to plough profits back into your business. This makes good sense, except for one thing – Capital Gains Tax (CGT). The more tax you pay, the less you have for retirement.

But there is a way you can minimise your CGT bill when you retire and use some of your capital to take full advantage of the super system. By claiming the CGT Retirement Exemption, a small business owner can elect to receive a lifetime limit of up to $500,000 tax-free when disposing of active business assets.

Note: Active business assets can include assets such as land and buildings, but not passive assets such as shares.

How does the strategy work?

To use this strategy, your net income-producing assets (excluding super) must be less than $5 million in 2006/07 and your business must be operated as a sole trader, partnership, private company or private trust.*

When you retire, you must choose for the CGT Retirement Exemption to apply on (or before) the lodgment of your annual tax return for the year in which you dispose of your business assets. The amount claimed via this concession is called the CGT Exempt component.

This component is tax-exempt when:

• Rolled over to a super or rollover fund (ie no contributions tax is payable).
• Taken as cash, provided you don’t exceed your Reasonable Benefit Limit (RBL – see FAQs on page 31) in the 2006/07 financial year.
• Received as part of a retirement income stream (such as an allocated pension).

However, if you are under age 55, you have to rollover the money to take advantage of the tax concessions and won’t be able to receive a cash lump sum or commence an income stream until you meet a condition of release (see FAQs on page 30).

* Other conditions apply. Speak to your adviser.

The benefits

• Eliminate an otherwise taxable capital gain on disposal of your active business assets.
• Convert business assets into super assets.
Case study

Jane (aged 64) owns a business she wants to sell in order to fund her retirement. She has owned the business for the last ten years and has recently found a buyer who is willing to pay $700,000 – providing a capital gain of $600,000. If Jane doesn’t apply for the CGT Retirement Exemption, she will need to pay $69,750 in CGT after taking into account the general 50% CGT discount* and the 50% Active Assets exemption#. As a result, she will receive a net benefit of $630,250.

Before strategy

<table>
<thead>
<tr>
<th>Sale proceeds</th>
<th>$700,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less cost base</td>
<td>($100,000)</td>
</tr>
<tr>
<td>Nominal capital gain</td>
<td>$600,000</td>
</tr>
<tr>
<td>Less 50% CGT discount*</td>
<td>($300,000)</td>
</tr>
<tr>
<td>Net gain after discount</td>
<td>$300,000</td>
</tr>
<tr>
<td>Less 50% CGT Active Assets exemption#</td>
<td>($150,000)</td>
</tr>
<tr>
<td>Net taxable gain</td>
<td>$150,000</td>
</tr>
<tr>
<td>Tax payable at 46.5%^</td>
<td>$69,750</td>
</tr>
<tr>
<td>After-tax benefit</td>
<td>$630,250</td>
</tr>
</tbody>
</table>

* Individual small business owners (eg sole traders and partners) can elect to be taxed on only 50% of the nominal gain.
# In addition, all small business owners can elect for the 50% CGT Active Assets exemption (see FAQs on page 31) to apply.
^ Includes a Medicare Levy of 1.5%.

After strategy

If Jane applies for the CGT Retirement Exemption, she could offset her net taxable gain of $150,000 and eliminate her CGT bill of $69,750 completely. By using this strategy, she could receive the full sale proceeds of $700,000 without paying any tax. She could also rollover the $150,000 CGT Exempt component and invest the balance of the sale proceeds ($550,000) in super as an undeducted contribution in the current (2006/07) financial year.

Tips and traps

• The CGT Exempt component will count towards your Reasonable Benefit Limit (RBL – see FAQs on page 31) in the 2006/07 financial year. However, the maximum CGT Exempt amount of $500,000 is not far below the standard lump sum RBL of $678,149. If you have existing super benefits you should take them into account when deciding how much of the CGT Exempt amount to claim.

• If you want to maximise your CGT Retirement Exemption (up to the maximum of $500,000), you can elect to forgo the 50% Active Assets exemption. This strategy is particularly valuable if you are over age 65 and can’t make super contributions.

• There is no age limit on rolling over a CGT Exempt component into a super fund.

• Regardless of when the CGT Exempt component is rolled over, the benefits can’t be accessed until you meet a condition of release (see FAQs on page 30).

• When invested in super, the amount claimed via the CGT Retirement Exemption is classified as a rollover and is not subject to the contribution limits – see FAQs on page 28.

How will the CGT Exempt component be treated after 1 July 2007?

The Government has proposed from 1 July 2007, the CGT Exempt component will form part of the tax-exempt component of an eligible termination payment, but the tax treatment will not change.

The Government has proposed a limit of $1million per person will apply to undeducted contributions made between 10 May 2006 and 30 June 2007. Lower limits will apply thereafter (see FAQs on page 28).
FAQs

Who can contribute to super?

Subject to the fund rules, contributions to your super account in 2006/07 are allowed in the circumstances outlined in the table below:

<table>
<thead>
<tr>
<th>Your age</th>
<th>Allowable contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 65</td>
<td>• Personal contributions (both deductible and undeducted), mandatory employer contributions, voluntary employer contributions and spouse contributions.</td>
</tr>
<tr>
<td>65–69</td>
<td>• Personal contributions (both deductible and undeducted), voluntary employer contributions and spouse contributions, provided you have worked at least 40 hours over a consecutive 30 day period during the financial year.</td>
</tr>
<tr>
<td></td>
<td>• Mandatory employer contributions.</td>
</tr>
<tr>
<td>70–74</td>
<td>• Personal contributions (undeducted only), provided you have worked at least 40 hours over a consecutive 30 day period during the financial year*.</td>
</tr>
<tr>
<td></td>
<td>• Mandatory employer contributions.</td>
</tr>
<tr>
<td>&gt; 75</td>
<td>• Mandatory employer contributions.</td>
</tr>
</tbody>
</table>

* The Government has proposed from 1 July 2007, you can also make personal deductible contributions and receive voluntary employer contributions up to and including age 74 (provided you have worked at least 40 hours over a consecutive 30 day period during the financial year). An existing super benefit can be rolled over at any time.

How much can you contribute to super?

- Deductible contribution limits
  There are limits on the amount of personal and employer contributions that can be claimed as a tax deduction – see right hand column.

- Undeducted contribution limits
  The Government has proposed a limit of $1million per person will apply to undeducted contributions made between 10 May 2006 and 30 June 2007.

Note: From 1 July 2007, the Government has proposed that:

- Undeducted contributions will be subject to an annual limit of $150,000 per person. However, if you are under age 65, you will be able to bring forward up to two years worth of contributions and invest up to $450,000 in one year. If you do this, no further contributions will be allowed in years two and three and you won’t need to meet a work-test in any of the three years.

- Certain undeducted contributions will be excluded from the annual limits. These include the proceeds from the sale of small business assets up to a lifetime limit of $1million and settlements received for injuries relating to permanent disablement.

- Contributions exceeding your undeducted contribution limit (including any excess deductible contributions – see right-hand column), will be taxed at a penalty rate of 46.5%. Where penalty tax is payable, you will be able to request your super fund to release sufficient benefits to pay the tax.

How is your super taxed?

- Tax on contributions
  Personal deductible contributions and employer contributions (including salary sacrifice) form part of the super fund’s assessable income and are taxed at a maximum rate of 15%.

- Tax on investment earnings
  The investment earnings of a complying super fund are taxed at a maximum rate of 15%. The tax rate payable can be reduced with the use of dividend imputation credits and the CGT discount provisions. The 1/3 CGT discount means the effective tax rate on realised capital gains is only 10%, where the investments have been held for more than 12 months.

What tax concessions are available when contributing to super?

- Tax deduction on super contributions
  In 2006/07, employers can claim a tax deduction on contributions to a complying super fund up to the Maximum Deductible Contribution (MDC) limits, as follows:

<table>
<thead>
<tr>
<th>Your age</th>
<th>Maximum Deductible Contribution limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 35</td>
<td>$15,260</td>
</tr>
<tr>
<td>35–49</td>
<td>$42,385</td>
</tr>
<tr>
<td>50 and over</td>
<td>$105,113</td>
</tr>
</tbody>
</table>

If you are self-employed or unsupported (see Glossary), you can claim a full deduction on the first $5,000 contributed plus 75% of the balance up to the relevant MDC limit. To maximise your allowable deductions, the following contributions should be made in the 2006/07 financial year:

<table>
<thead>
<tr>
<th>Your age</th>
<th>Maximum contribution to claim full tax deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 35</td>
<td>$16,680</td>
</tr>
<tr>
<td>35–49</td>
<td>$54,847</td>
</tr>
<tr>
<td>50 and over</td>
<td>$138,484</td>
</tr>
</tbody>
</table>

Note: The Government has proposed from 1 July 2007:

- The MDC limits will be replaced with a single Concessional Deductible Contribution (CDC) limit of $50,000 pa per person. However, if you are aged 50 or over, you will be entitled to a transitional CDC limit of $100,000 pa for five years and $50,000 pa thereafter.

- Personal deductible contributions and voluntary employer contributions (including salary sacrifice) will be deductible up to and including age 74, provided you have worked at least 40 hours over a consecutive 30 day period during the financial year.

- If you are self-employed or unsupported, you will be eligible to claim a full tax deduction up to the new CDC limits. That is, you won’t be limited to claiming the first $5,000 plus 75% of the balance up to your relevant MDC limit.
• Contributions exceeding the CDC limits will be taxed at a penalty rate of 31.5% (in addition to the 15% contributions tax paid in the fund) and will be counted towards your undeducted contribution limit (see left-hand column). Where penalty tax is payable, you will be able to request your super fund to release sufficient benefits, or you can pay the tax out of non-superannuation money.

• Co-contributions for lower income employees
You may be entitled to a Government co-contribution of up to $1,500 pa if:
- Your assessable income plus reportable fringe benefits are less than $58,000 pa.,
- At least 10% of your assessable income plus reportable fringe benefits is attributable to eligible employment*,
- You make personal after-tax (undeducted) contributions to your super account*,
- You lodge an income tax return,
- You are under age 71 at the end of the financial year that the personal superannuation contribution is made, and
- You are not a temporary resident.
* From 1 July 2007, the Government has proposed the 10% income test will also include business income, which may enable self-employed people to qualify for a co-contribution.
# Salary sacrifice amounts do not qualify as personal contributions.

The table below outlines the co-contribution you may be entitled to receive if you make personal after-tax super contributions in the 2006/07 financial year.

<table>
<thead>
<tr>
<th>Income^</th>
<th>Personal contribution^</th>
<th>Co-contribution available</th>
</tr>
</thead>
<tbody>
<tr>
<td>$28,000 or less</td>
<td>Any amount</td>
<td>Personal contribution x 1.5 (max. $1,500)</td>
</tr>
</tbody>
</table>
| $28,001 – $57,999 | $0 – $1,000 | An amount equal to the lesser of:
- Personal contribution x 1.5, or
- $1,500 – [0.05 x (income^ – $28,000)] |
| $28,001 – $57,999 | $1,000 or more | $1,500 – [0.05 x (income^ – $28,000)] |
| $58,000 or more | Any amount | Nil |

^ Includes assessable income plus reportable fringe benefits.
~ The personal after-tax contributions are subject to the proposed undeducted contribution limits outlined on page 28.

• Spouse contribution tax offset
You may be able to claim a tax offset of up to $540 pa for after-tax undeducted super contributions you make on behalf of your spouse. The amount of the offset will depend on your spouse’s income^ as follows:

<table>
<thead>
<tr>
<th>Spouse’s income^</th>
<th>Contribution amount^</th>
<th>You can claim an offset of:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,800 or less</td>
<td>$0 – $3,000</td>
<td>18% of contributions</td>
</tr>
<tr>
<td>$10,800 or less</td>
<td>$3,000 or more</td>
<td>$540 maximum</td>
</tr>
<tr>
<td>$10,801 – $13,799</td>
<td>Any amount</td>
<td>18% of contributions up to $3,000 (minus $1 for every dollar your spouse earns over $10,800)</td>
</tr>
<tr>
<td>$13,800 or more</td>
<td>Any amount</td>
<td>Nil</td>
</tr>
</tbody>
</table>

^ Includes assessable income plus reportable fringe benefits.
† Your spouse will only be able to receive after-tax contributions up to the proposed undeducted contribution limits outlined on page 28.
A spouse under the relevant legislation includes a married or de facto spouse, but does not include a partner (married or de facto) who lives in a different home or a same sex de facto spouse. The receiving spouse must also be under age 65 or, if between 65 and 70, must have worked at least 40 hours over 30 consecutive days during the financial year.

Who can split super contributions?
To split super contributions, you and your spouse must be in a married (or de facto) relationship, but you can’t be same sex partners. Also, to receive a contribution split, your spouse must be under 55 years of age or, if between 55 and 64 years, they:
- Are currently gainfully employed for 10 or more hours per week; or
- Although not currently employed for 10 or more hours per week, they intend to resume gainful employment for 10 or more hours per week; or
- Have never been gainfully employed for 10 or more hours per week.

What are the current income tax rates?
• Marginal tax rates on income
The following table summarises the tax rates that apply to residents in the 2006/07 financial year.

<table>
<thead>
<tr>
<th>Taxable income range</th>
<th>Tax payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 – $6,000</td>
<td>Nil</td>
</tr>
<tr>
<td>$6,001 – $25,000</td>
<td>15% on amount over $6,000</td>
</tr>
<tr>
<td>$25,001 – $75,000</td>
<td>$2,850 + 30% on amount over $25,000</td>
</tr>
<tr>
<td>$75,001 – $150,000</td>
<td>$17,850 + 40% on amount over $75,000</td>
</tr>
<tr>
<td>Over $150,000</td>
<td>$47,850 + 45% on amount over $150,000</td>
</tr>
</tbody>
</table>
Medicare Levy
A levy of 1.5% that is payable on your taxable income on top of normal marginal tax rates. An additional 1% is charged for singles with an income (including reportable fringe benefits) over $50,000 ($100,000 combined for couples) who have no private health insurance. If you earn less than $16,284 pa ($27,478 pa combined for couples) you are exempt from the levy.

When can you withdraw your super?
From 1 July 1999, any new contributions to a super fund and all earnings on new and existing benefits must be preserved. This means you generally cannot access your money including your existing benefits, until you meet one of the following conditions of release:

- Retirement after reaching your preservation age (55 to 60 – see below)
- Leaving your employer after age 60
- Attaining age 65
- Permanent incapacity (specific requirements apply)
- Death
- Severe financial hardship (the amount is restricted and you must have received Commonwealth income support for six months consecutively or nine months cumulatively if aged 55 or over).
- Compassionate grounds (must be approved by APRA/ATO)
- Upon permanent departure from Australia for certain temporary residents holding a specific class of visa.
- Leaving the service of your employer who has also contributed into your super fund – restricted non-preserved benefits only.

A non-commutable income stream (see Glossary) may also be commenced with preserved benefits if you have reached your preservation age (see below).

What are the preservation ages?
The age at which you can withdraw your super (ie the age at which it’s no longer preserved) depends on when you were born. The table below shows the current preservation ages.

<table>
<thead>
<tr>
<th>Date of birth</th>
<th>Preservation age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1 July 1960</td>
<td>55</td>
</tr>
<tr>
<td>1 July 1960 – 30 June 1961</td>
<td>56</td>
</tr>
<tr>
<td>1 July 1961 – 30 June 1962</td>
<td>57</td>
</tr>
<tr>
<td>1 July 1962 – 30 June 1963</td>
<td>58</td>
</tr>
<tr>
<td>1 July 1963 – 30 June 1964</td>
<td>59</td>
</tr>
<tr>
<td>1 July 1964 or after</td>
<td>60</td>
</tr>
</tbody>
</table>

How long can I keep my benefit in super?
Effective 10 May 2006, you can keep your benefits in the accumulation phase of a super fund for as long as you like.

How are withdrawals taxed?

Tax on lump sum benefits
The following table summarises the lump sum tax rates that apply in the 2006/07 tax year.

<table>
<thead>
<tr>
<th>ETP component</th>
<th>Tax treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undeducted contributions</td>
<td>The full amount is tax exempt</td>
</tr>
<tr>
<td>Concessional</td>
<td>5% of the payment is added to the recipient’s assessable income in the year of receipt and taxed accordingly</td>
</tr>
<tr>
<td>Pre-July 1983</td>
<td>5% of the payment is added to the recipient’s assessable income in the year of receipt and taxed accordingly</td>
</tr>
<tr>
<td>Post-June 1983 (taxed element)</td>
<td>Up to age 55 – 21.5%* From age 55 – up to $135,590 – 0% – over $135,590 – 16.5%*</td>
</tr>
<tr>
<td>Post-June 1983 (untaxed element)</td>
<td>Up to age 55 – 31.5%* From age 55 – up to $135,590 – 16.5%* – over $135,590 – 31.5%*</td>
</tr>
<tr>
<td>Post 30 June 1994 invalidity</td>
<td>The full amount is tax exempt</td>
</tr>
<tr>
<td>Excessive (ie amounts above your RBL)</td>
<td>Post-June 1983 (taxed element) – taxed at 39.5%* Balance of excessive components – taxed at 46.5%*</td>
</tr>
<tr>
<td>CGT Exempt</td>
<td>The full amount is tax exempt</td>
</tr>
</tbody>
</table>

* Includes a Medicare Levy of 1.5%.
^ This figure applies in 2006/07.

Note: The Government has proposed from 1 July 2007:

- RBLs will be abolished.
- The existing ETP components will be replaced with two – tax-exempt and taxable.
- Where you have a tax-exempt and taxable component, each lump sum withdrawal will contain a proportional amount of each component.
- Regardless of the components that make up your benefit, no tax will be payable on lump sum withdrawals from a taxed super fund (see Glossary) at age 60 or over.
- If under age 60, the taxable component will be taxed in a similar manner to the current post-June 1983 (taxed element). The difference is the tax-free threshold between age 55 and 59 will be $140,000 in 2007/08 and will increase periodically in increments of $5,000.
**Reasonable Benefit Limits (RBLs)**

RBLs are the maximum amount of concessional taxed superannuation and employer ETP benefits you can receive over your lifetime. Any amount you withdraw above your RBL (ie an excessive component) will be taxed at up to 46.5%. The following table summarises these limits for the 2006/07 tax year.

Note: The Government has proposed RBLs will be abolished from 1 July 2007.

<table>
<thead>
<tr>
<th>Limit</th>
<th>Under what circumstances?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lump Sum RBL</td>
<td>If you take your assessable benefits as a cash lump sum, or you use these amounts to purchase an allocated pension or immediate annuity.</td>
</tr>
<tr>
<td>$678,149*</td>
<td></td>
</tr>
<tr>
<td>Pension RBL</td>
<td>If you take at least 50% of your assessable benefits or 50% of your pension RBL (whichever is less) in the form of a complying income stream (see Glossary).</td>
</tr>
<tr>
<td>$1,356,291*</td>
<td></td>
</tr>
</tbody>
</table>

* Some people may be eligible for higher transitional RBLs.

When a benefit is assessed against the lump sum RBL and the person is less than age 55, the lump sum RBL is discounted by 2.5% for each whole year between the person’s current age and their 55th birthday. The Pension RBL is not discounted.

The following table sets out the RBL amount for each component in the 2006/07 tax year.

<table>
<thead>
<tr>
<th>Component</th>
<th>% counted for RBLs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undeducted contributions</td>
<td>Not counted</td>
</tr>
<tr>
<td>Pre-July 1983 – Super ETP</td>
<td>100%</td>
</tr>
<tr>
<td>Pre-July 1983 – Employer ETP</td>
<td>Not counted</td>
</tr>
<tr>
<td>Post-June 1983 taxed element</td>
<td>100%</td>
</tr>
<tr>
<td>Post-June 1983 untaxed element</td>
<td>85% counted</td>
</tr>
<tr>
<td>Concessional</td>
<td>Not counted</td>
</tr>
<tr>
<td>Post-30 June 1994 invalidity</td>
<td>Not counted</td>
</tr>
<tr>
<td>Non-qualifying</td>
<td>Not counted</td>
</tr>
<tr>
<td>CGT exempt</td>
<td>100%</td>
</tr>
</tbody>
</table>

# If the employee is an associate of the employer (eg a director or a partner), 100% of the pre-July 1983 component will count towards their RBL.

**What are the benefits of purchasing an income stream with superannuation money?**

Rolling over your super to purchase an income stream can provide benefits which aren’t available if you take your superannuation as a lump sum in the 2006/07 tax year. These include:

- Avoiding lump sum tax
- Investment earnings of the income stream accumulate tax-free
- A possible 15% offset on your taxable income payments (this means it’s possible to receive up to $36,788 tax free each year for singles and $66,266 for couples combined)^
- You may receive favourable social security treatment which could make you eligible to receive the Age Pension and associated benefits.

For further information on the benefits of investing in retirement income streams, see our brochure, *Retire in Style.*

^ The Government has proposed that from 1 July 2007, no tax will be payable at age 60 or over on lump sum withdrawals or income stream investments paid from a taxed super fund (see Glossary).
Allocated pension – An account in which you invest your super savings in exchange for a regular and flexible income.

Annuity – A policy in which you invest super or non-super savings in exchange for a regular predetermined income that is guaranteed for an agreed period of time.

Assessable income – Income (including capital gains) you receive before deductions.

After-tax benefit – Your super or income stream benefit after any lump sum tax is deducted.

Business real property – Any freehold or leasehold interest of a person in real property which is used wholly and exclusively in the person’s business.

Capital gains tax (CGT) – A tax on the growth in the value of assets or investments, payable when the gain is realised. If the assets have been held by an individual, trust or super fund for more than one year, the capital gain receives concessional treatment.

Complying income stream – A special type of income stream that must meet a number of criteria to enable you to obtain a 50% Assets Test exemption or qualify for the Pension RBL.

Complying super fund – A super fund that qualifies for concessional tax rates. A complying super fund must meet the requirements that are set down by law.

Condition of release – Circumstance upon which you can withdraw your super benefits (See FAQs on page 30).

Contributions tax – A tax of 15% applied to personal deductible and employer contributions made to a super fund.

Deductible amount – The portion of your income stream that is not assessed for income tax purposes. This is calculated by dividing the ‘Undeducted Purchase Price’ by your life expectancy (or fixed term of your annuity or pension where applicable).

Discretionary master trust – A type of super fund that offers similar investment flexibility to a self-managed fund without the burden of having to be a Trustee.

Disposal of asset – When an asset changes ownership, which can include means other than through sale (eg by gift). Relates to Capital Gains Tax.

Eligible Termination Payment (ETP) – A lump sum super benefit or a payment made by an employer on termination of employment (eg golden handshake). For tax purposes, ETJs are split into various components, each of which is taxed differently.

Excessive component – That part of an Eligible Termination Payment or income stream that exceeds an individual’s Reasonable Benefit Limit.

Ex-gratia payment – A payment, usually made in the form of a lump sum, which does not form part of an employee’s normal wages or salary.

Fringe benefit – A benefit provided by your employer in respect of employment. Super contributions made by an employer to a complying super fund are excluded from Fringe Benefits Tax.

Fringe Benefits Tax (FBT) – A tax payable by your employer on the taxable value of certain fringe benefits that you receive as an employee. The current rate of tax is 46.5%.

Gainfully employed – When you are engaged in an occupation in which you earn an income. If your sole source of income is through investments, you are not gainfully employed.

Income streams – Investments that provide a regular income, such as allocated pensions and annuities.

In specie contribution – The contribution of an asset into super rather than cash. It is achieved by transferring ownership of the asset to the super fund. Only certain types of assets can be transferred.

Life expectancy – As determined by reference to the current Australian Life Tables.

Lump sum – The tax that may be payable when you take superannuation or an employer ETP as a cash lump sum.

Mandatory employer contributions – Super contributions your employer is required to make on your behalf by law. Includes Superannuation Guarantee (SG) contributions and employer contributions required under an industrial award or certified agreement.

Marginal tax rate – The stepped rate of tax you pay on your taxable income. See FAQs on page 29.

Non-commutable income stream – An income stream that can be purchased with preserved benefits after reaching your preservation age (see FAQs on page 30), but generally cannot be cashed out until you meet another condition of release (see FAQs on page 30).

Ordinary money – Money invested outside of super.

Pension offset – A tax offset of up to 15% of the taxable income payments received from a super pension or ETP annuity.

Personal super – A super fund that is not sponsored by your employer, although your employer may be able to contribute to it.

Post-June 1983 component – Part of your ETP that relates to employment service or fund membership after 30 June 1983.

Post-June 1994 Invalidity component – Part of your ETP that relates to future service lost through invalidity.

Pre-July 1983 component – Part of your ETP that relates to employment service or fund membership before 1 July 1983.

Preserved benefits – Benefits that must be kept in a super fund and cannot be withdrawn until you meet a condition of release (see FAQs on page 30).

Purchase price – The lump sum or contributions used to buy an income stream.

Reasonable Benefit Limit (RBL) – The maximum amount of concessional taxed super and employer ETP benefits you can receive in your lifetime (see FAQs on page 31).

Restricted non-preserved benefits – Non-preserved benefits that can only be withdrawn from the super system when you meet a condition of release (such as when you leave your employer who has made contributions to your super fund on your behalf).

Rollover – When you move your super benefits directly to a super or rollover fund.

Tax deduction – An amount that is deducted from your assessable income before tax is calculated.

Taxed super fund – A super fund that pays tax on contributions and earnings in accordance with the standard super tax provisions.

Tax offset – An amount deducted off the actual tax you have to pay. You may be able to claim a tax offset in your end of year tax return (eg franking credits). Sometimes a tax offset may be taken into account in calculating your PAYG rates.

Undeducted contributions – Amounts you contribute to a super fund after 30 June 1983 and have not claimed as a tax deduction.

Undeducted Purchase Price (UPP) – The total of your undeducted contributions, CGT Exempt component and post-30 June 1994 Invalidity component when used to purchase an income stream.

Unrestricted non-preserved benefits – Benefits that have met a condition of release and therefore can be withdrawn from a super fund at any time.

Unsupported – A person who is not eligible to receive superannuation from an employer.

Voluntary employer contributions – Include salary sacrifice contributions and contributions made by an employer that are discretionary (ie not mandatory).
Speak to your financial adviser about these solutions to grow your super and protect your assets.

For the latest Product Disclosure Statement, visit mlc.com.au or speak with your financial adviser.
MLC MasterKey Service Centre
For more information call MLC MasterKey from anywhere in Australia on 132 652, or contact your adviser.

mlc.com.au
MLC Limited
PO Box 200
North Sydney
NSW 2059

MLC also has guides on wealth creation, wealth protection, debt management and retirement. Ask your financial adviser for more details.