

How to make your super work harder....

By Ben Cameron, Director, Bentleys

To date there has been much written in the media about the new superannuation legislation, most of which commenced on the 1st of July 2007. Now it is time to make this tax-friendly legislation work for you and your family by:

- significantly reducing income tax liabilities
- assisting in your family's succession planning
- making your estate planning decisions easier

Reduce your future income tax liabilities

If you are over 50 years of age you have a transitional period of five years to place up to \$100,000 (per year) per tax payer into superannuation. For a husband and wife team, that is a total of \$1 million in tax effective savings, plus earnings by the year 2012. If you use an average after-tax earnings rate of 12%, this will amount to a nest egg of \$1.23 million in five years. This estimate assumes the contributions are tax deductible and the 15% contributions tax has been deducted.

Obviously the figures used above are the maximum amounts of deductible superannuation contributions available to those over 50 years of age; however, any lesser amounts can be used.

The general rule is if you take your superannuation money after you turn 60 it is now tax free. It is therefore possible for many primary producers to aim to reduce their effective tax rate to just 16.5% (including the 1.5% medicare levy).

If the maximum aged based superannuation contributions do not reduce your taxable incomes enough, primary producers can use farm management deposits (FMDs) to gain more deductions. When you are approaching 60, or you are experiencing a low income year, (i.e. due to drought) you withdraw your FMDs and place the funds directly into superannuation.

If these droughts continue you could obtain the same result without having to part with your cash into FMDs. The Income Tax Legislation allows primary producers who are forced to sell livestock due to drought conditions to defer paying tax on the profits generated for up to five years. When it is time for these profits to be brought to account as assessable income the funds are then placed into superannuation.

The diagram below illustrates this tax effective superannuation strategy:





The same strategy will not suit all primary producers but you will need to work closely with your taxation adviser to develop long-term tax planning strategies that suit your circumstances.

Using superannuation to assist in your succession planning

Recent research of baby boomers approaching retirement age reveals that approximately 30 percent of family business owners plan to retire in the next one to three years and a further 27 percent within four to six years. In dollar value terms this predicted massive transition of business wealth amounts to a staggering \$3.6 trillion.

With the age profiles of rural property owners, the issue of succession is at the forefront of many minds. If not on the older generations' minds, then it is certainly on the younger generations' minds! The use of superannuation can assist in your family's succession planning.

The funds built up in your superannuation fund can be used to buy a comfortable home for your retirement. If you already have the comfortable home, your super will provide you with a secure income stream in your later years. This gives you independence and you will be less reliant on the family farm for income support. The comfortable home and a secure independent income stream are the two most important ingredients for a workable succession plan.

Once you commence taking your super in the form of an allocated pension the earnings on your super balance will be tax free.

Superannuation makes estate planning easier

Your superannuation money makes it easier for you to act fairly when deciding which family member inherits what asset. A good superannuation plan forces you to build off-farm investments that are liquid and separated from your business. These funds can be bequeathed to family member(s) not working in the family business. The result is happiness for all children and the family business is often left in tact, with one (or more) of the younger generation continuing to build on what you created.

Superannuation has been around for a long time; however, the Federal Government has just made it more attractive. Now that there are caps in place as to the maximum amounts that can be contributed to superannuation everyone will need to plan for their future much earlier in order to have sufficient funds for an enjoyable retirement. Your children will thank you for it also as it will make succession and estate planning a much easier and satisfying task.

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