



# Make the most of superannuation 'transition to retirement' rules

If you are aged 55 or more you are entitled to start a 'Transition To Retirement (TTR)' pension with your superannuation savings, even if you are still working. This is basically a regular stream of income payments from a superannuation fund which can be used to supplement your work or other income. A practical example of how the superannuation TTR rules may assist you with your financial situation is provided below.

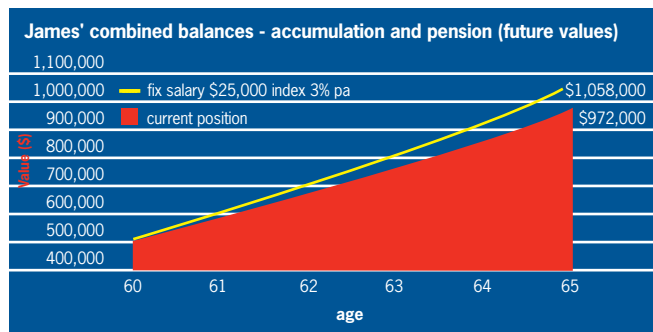
## How does it work.....

James is aged 60 and has accumulated \$500,000 in his superannuation fund. He has a gross salary package of \$120,000 pa, and he is currently salary sacrificing \$45,000 of that into super. The balance is being taken as salary, which amounts to \$56,025 after tax.

The existing investment strategy for James should result in his super accumulation account growing to approximately \$972,000 at age 65.

However, let's assume, James uses the entire \$500,000 to commence a TTR pension. He also reduces his take-home salary to \$25,000, and elects to receive pension payments so his net after tax income remains the same (\$56,025) in year one. Assuming the same annual return on his superannuation assets as above, James' combined TTR pension and superannuation accumulation accounts will amount to approximately \$1,058,000; that is, \$86,000 more than his current strategy, at age 65.

In summary, under both scenarios this take home income is the same from age 60 until age 65 – simply he is \$86,000 better off if he uses the 'Salary Sacrifice & TTR Pension' strategy.



It may be worth talking to your financial adviser and employer with a view to putting arrangements in place. From 1 July 2007, this approach may be particularly appealing for those aged 60 years to 74 years inclusive, as pension payments will be tax free.

Please note that various factors need to be considered when determining whether this strategy is relevant to you – including the size of your superannuation savings, your employer's ability to pay contributions to an appropriate superannuation fund and your ability to salary sacrifice additional amounts to super.

**REMINDER:** Please remember that from 1 July 2007, the Government will impose limits on employer and undeducted contributions. However, if you act now and invest before 30 June 2007 a once-off higher cap of \$1 million applies to undeducted contributions.

Extract from Macquarie Booklet 'Get more into super before 1 July...get more out of retirement' dated 2 April 2007. Assumptions: Projections based on Balanced Investment Strategy – Cash 5% (Income 5.5% pa.), Aust Fixed Interest 20% (Income 6.0%pa); Overseas Fixed Interest 10% (Income 6.5%pa.), Aust Equities 30% Growth 6.0%pa, Income 3.5%pa), Overseas Equities 25% (Growth 7.0%pa, Income 2.0%pa); Property 10% (Growth 2.0%pa., Income 7.0% pa.).

# ATO interest rates on outstanding taxes for June 2007 quarter.

For the June 2007 quarter, the General Interest Charge (GIC) rate on late payments of tax is 13.37%. The Shortfall Interest Charge (SIC) rate which applies to tax payable on amended income tax assessments is 9.37%.

If you have overpaid tax or made early payments of tax the ATO will pay you interest at the rate of 6.37% (note the differential!!!).

Given the high GIC and SIC rates charged by the ATO, if you are having problems meeting your tax liabilities on time you should consider alternative and cheaper sources of finance.

Please feel free to contact our lending & finance division if you wish to discuss ways to minimize your tax related interest expenses.



## Court considers loan repayments to shareholders subject to FBT.

The Federal Court has recently determined that a private company that paid private expenses of a taxpayer and his wife (who were the directors and shareholders) was liable to FBT on the expenses even though the expenses were debited against a loan that the shareholders had previously made to the company.

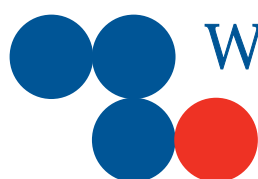
Clearly, this is a case of not what you do but how you do it.

Had the company simply repaid the money to the taxpayers and the taxpayers incurred the expenses themselves rather than the company paying their expenses, the arrangement would have been highly unlikely to be subject to FBT.

The critical issue before the Court was whether the loan expense payments were made "in respect of" the employment of the taxpayers as distinct from repayment of their shareholder loan accounts.

Whilst the Court decided "Yes" (ie that the repayments were a "benefit" and that the taxpayers were "employees" of the Company), the decision has not only been appealed, but has caused uproar amongst taxation professionals as the transactions in question are common occurrences in most private entities.

If you have concerns as to how this case may affect your business arrangements, please contact your Principal or advisor to discuss further.



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