

# ROGERSON KENNY

## BUSINESS ACCOUNTANTS



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### Turning 60? This may cheer you up... you can have your cake and eat it too!

Are you aged 60 or over, still working, and looking for a tax break? This may be for you...

You can elect to turn your super fund member's account into a Transition to Retirement Income Stream (a fancy phrase for a form of pension) and greatly reduce your tax. Let me explain how this works...

- 1) In a year in which a member's account balance is in a form of pension mode within super for the full year, the tax rate is 0% on income and capital gains (provided you comply with all the legislative requirements, special rules apply for the year of implementation that may also result in reduced or even zero tax).
- 2) A person can elect to salary sacrifice all or part of their wage (but watch the contribution caps, see below) into their super fund (which is pre-tax, therefore no tax payable in your own name on this amount) and the super fund only pays a contribution tax of 15% on the money going in. As long as the amount you sacrificed was being taxed at a higher rate in your personal name and you draw out less than what you put into super, you should be in front.
- 3) When you then withdraw money out of your super fund (as a Transition to Retirement Income Stream), as you are 60 or over, this is tax free. That is, this amount does not need to be added onto your personal tax return. A great saving, especially if you are in a high marginal tax rate.

So, when you are over 60, you can salary sacrifice an amount of money from your employer or business into the super fund with no Pay As You Go Withholding (PAYGW) tax taken out. The super fund pays 15% contributions tax on the money coming into the super account and any money you then withdraw out of super to support your income needs is tax free, non-assessable in your own name.

This is a relatively simple strategy that can save you money and help build your super savings. Currently, if you are aged 50 or over you can contribute \$50,000 per year as concessional contributions (typically salary sacrifice and employer contributions). From 1 July 2012, this amount is reduced to \$25,000 per year, however, the Federal Government has proposed changes that will allow members with account balances less than \$500,000 to still contribute \$50,000 per year as a concessional contribution – we shall wait and see.

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TO...”

The main restriction on a Transition to Retirement Income Stream, is that you have a 10% maximum limit on the amount you can withdraw per year. This is calculated on the previous end of financial year's member balance.

For those aged 55 or older this is also possible, the only catch is whatever comes out of the super fund as a Transition to Retirement Income Stream (as a taxable component) is assessable in your personal tax return. You do have attached to this income stream payment a 15% rebate, which is offset against your income tax payable. If you are withdrawing the same amount as you are contributing, the benefit probably isn't that great. However, if you are contributing more than you are taking out, then the benefit starts to grow. Further to this, if you have a low taxable component in your member's balance (this is how your members account balance are made up, between taxable and tax free components) the amount or percentage of any amount you withdraw that is taxable, is what is assessable. This can become confusing, so please seek assistance if you need.

Once you are aged 60 or older and do not intend to return to gainful employment, you can elect to take an Account Based Pension, which has no maximum withdrawal limit, so in theory, you could withdraw the entire super money with no consequence.

However, once attaining the age of 65 or older, to keep contributing into super, you must meet the work test, which is be gainfully employed for 40 hours or more in a continuous 30 day period within the financial year in which you are making the contribution.

The easiest way to conceptualise you being in accumulation and pension mode at the same time, is to imagine you are two people in the one super fund. Once as an accumulation member contributing money and the other as a pension member, drawing down on your benefit.

Keep in mind, that while in this stage of being two people (accumulation and pension), the portion of the fund that is in accumulation mode is taxable. This amount is usually quite small and is not a big deal. The fact that the majority of the fund is in pension, will mean that majority will be tax free on the earnings and capital gains.

So, between the ages of 55 to 64, you can really start to have your super working for you and grow your super savings by implementing a few simple strategies. Aged 65 to 74 opportunities still exist, but you must pass the work test noted above.

If you have any queries about this, please contact Mark Rogerson on 03 9802 2533 or [mark.rogerson@rogersonkenny.com.au](mailto:mark.rogerson@rogersonkenny.com.au)