Advice Guide – Superannuation Accumulation

How to read this document

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task. There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan, it is important that you understand how these issues will impact on you and what you should expect over time.

This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It is designed for use in conjunction with a Statement of Advice that takes into account the circumstances and objectives of an individual. Before making a commitment to purchase or sell a financial product, you should ensure that you have obtained an individual Statement of Advice prepared by WARR HUNT Pty Ltd.

As legislation may change, you should ensure you have the most recent version of this document.

Please contact your Adviser if you do not understand anything or need further information.

Version 4 – April 2023

Superannuation

Why invest in superannuation?

Superannuation has been specifically designed and endorsed by the Federal Government as the preferred way to save for your retirement and has added tax benefits that make it particularly attractive. The tax rates imposed on superannuation funds include:

- Pre-tax Contributions taxed at 15% for individuals. This increases to 30% for those with assessable income of $250,000 or above.
- Investment income taxed at a maximum of 15%.
- Capital gains tax at a maximum of 15%. If the asset has been owned by the superannuation fund for more than 12 months, the maximum rate of capital gains tax is 10%.
- Superannuation Income Streams attract concessional rates of tax, most notable a retirement income stream is commenced (at age 65, or if you have met the superannuation definition of retirement) the tax rate on income and capital gains in the pension account reduces to 0%.
- Pension payments are also tax free for those aged over 60. For those aged between preservation age and 60, pension payments (less any tax-free amount) will be taxed at your personal marginal tax rate but receive a 15% tax offset.

See our **Advice Guide – Superannuation Income Streams** for more information on pensions.

When can I access my superannuation?

Superannuation benefits are restricted in that they generally cannot be accessed until the owner reaches their preservation age and has retired or, the owner reaches age 65. A person's preservation age will vary between age 55 and 60 depending on their date of birth (as outlined in the table below).

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

Types of superannuation funds

Defined benefit fund

In a defined benefit fund, your retirement benefits are usually determined by factors such as your age, final salary at retirement, and how many years of service you had with your employer. Your final benefits are not reliant on investment returns and are generally guaranteed by the fund.

Accumulation fund

An accumulation fund accumulates contributions and earnings to provide a benefit for you. Your final retirement benefit is therefore dependent on the amount of contributions made and the earning rate of the fund.

Accumulation funds provide greater control over the selection of investment options as well as greater transparency of the fund's administration. In contrast to defined benefit funds, investment returns are *not* guaranteed. As a result, the investment balance of an accumulation fund can go up and down with movements in investment markets.

There is no limit to the amount that you can hold in an accumulation fund.

Types of superannuation contributions

Contributions to the superannuation system are split into two broad groups; concessional contributions and non-concessional contributions. Limits apply to the amount of contributions (both concessional and non-concessional).

Concessional contributions

Concessional contributions are generally contributions made by or for individuals that are tax deductible to the contributor and are assessable in the hands of the superannuation fund such as superannuation guarantee, salary sacrifice and personal deductible contributions. Concessional contributions form part of the **taxable** component of your superannuation benefit.

Concessional contributions made in excess of the annual limit are charged penalty taxes. The limit is indexed to Average Weekly Ordinary Time Earnings (AWOTE).

Factors to be aware of

- *Concessional contributions will be taxed at 15% (or at 30% for individuals with income of $250,000 or above).*
- *Concessional contributions in **excess** of the Concessional limits will be added to the individual's assessable income and taxed at the individual's marginal tax rate. This is not a penalty tax, rather the tax that would have been otherwise paid if receive as income. An additional small interest charge will also be payable.*
- *Any contributions in excess of the concessional limit will be counted towards the person's non-concessional cap unless the person elects to have the excess concessional contributions refunded, rather than retaining them in superannuation.*
- *From age 75, only employer contributions can be accepted which are required to be made under legislation (e.g. Superannuation Guarantee).*

Non-concessional contributions

Non-concessional contributions include contributions to the fund such as personal after-tax contributions and spouse contributions. These contributions are not taxed (provided they are within the annual limit) and form part of the **tax-free** component of your superannuation benefit.

Non-concessional contributions made in excess of the annual limit may be charged penalty taxes. This limit is indexed in line with the concessional contribution limit.

Excess non-concessional contributions made after 1 July 2013 may be withdrawn from superannuation, along with associated earnings on these amounts, after the Australian Taxation Office has made a determination and provided an election form. If you make the election to withdraw, you will not be subject to penalty tax on the excess non-concessional contributions, however you will be subject to tax on the associated earnings.

From 1 July 2022, individuals under 75 (at the commencement of the relevant financial year) may be able to bring forward up to two years of non-concessional contributions, enabling them to contribute up to three years of contributions in one year with no further contributions in the next two years. The year in which the three year cap is initially triggered determines the value that can be contributed during the three year period.

Accumulation Balance Limits

Your total superannuation balance must be less than the Total Superannuation Balance caps (subject to indexation) on the prior 30 June to be eligible to make non-concessional contributions.

Additional limitations will apply when determining the total amount of non-concessional contributions that can be made depending on how close you are to the current Total Superannuation Balance cap.

Factors to be aware of

- *Contributions in **excess** of the non-concessional limits will be taxed at the **highest marginal tax rate** plus Medicare levy. This tax will be applied to the individual, not the superannuation fund. The individual will receive an excess contributions tax assessment from the Australian Tax Office and pay within 21 days.*
- *If you elect to withdraw an excess non-concessional contribution and the associated earnings, you must do so within 60 days of the date of issue of the determination sent by the ATO. The associated earnings will be included in your assessable income and taxed at your marginal tax rate. Beyond this time frame, you will not be able to withdraw, meaning the excess contribution will be retained in superannuation and subject to penalty tax at 47%.*
- *Associated earnings on excess non-concessional contributions is determined by the ATO using a formula, and will not reflect actual fund earnings.*
- *Individuals aged 75 and over are not able to make non-concessional contributions.*

Taxation of superannuation withdrawals

Depending on the classification of your superannuation benefits, you may be able to withdraw (cash out) part of your superannuation benefits.

When you withdraw funds from superannuation, you may incur lump sum tax depending on your age at the time of the withdrawal, the total amount withdrawn and the superannuation component from which the funds are taken.

Outlined below is the tax treatment of superannuation withdrawals based on an individual's age at the time of withdrawal and in some cases the total amount withdrawn and superannuation component.

Withdrawals over age 60

For individuals aged 60 and over, superannuation withdrawals made from taxed superannuation funds are tax-free and are non-assessable, non-exempt income.

Withdrawals under age 60

Depending on your personal circumstances and the components that make up your superannuation benefit, tax may be payable.

Death benefits

Any superannuation benefits paid to a beneficiary considered a tax dependant are tax free. A tax dependant includes a spouse, former spouse, a child under the age of 18, a financial dependant or interdependent.

Payments to non tax dependant beneficiaries may incur tax depending on the components that make up your superannuation benefit.