SUPERANNUATION STRATEGIES THROUGH THE AGES

Engaging with, growing and using your superannuation

CONTENTS

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OVERVIEW

Creating substantial wealth for the everyday person might seem daunting and difficult. Many people will dismiss the prospect that they are able to amass considerable wealth.

We will come up with all types of excuses such as 'I don't earn enough', 'It is too hard', 'It takes too long', 'I would rather spend my money now', 'I will start next year'. Others are hopeful of potential windfalls such as playing the lottery or investing in speculative investments hoping for superior returns.

The reality is that it is not actually that difficult to create substantial wealth if you take a long-term disciplined, repetitive and structured approach.

When our financial advisers provide advice, they work alongside our accountants to determine the best outcomes for clients. Our advisers will consider 'risk adjusted, after fee, after tax returns' when providing advice.

The reason why tax is a major consideration for our advisers is because it consumes a large portion of your overall return. It is the biggest fee you will ever pay. Many times, our advisers would encourage our clients to engage with their superannuation for long-term wealth accumulation due to the tax concessions on offer.

In this thinkBIG publication, our financial advisers have focused on how to get ahead by engaging with your superannuation, deep diving into the options and possibilities, based on the different age groups and relevant priorities.

Although accumulating wealth is a priority for most, we must also be aware of the risks that life presents and what can go wrong along the way. There is no point building long-term wealth accumulation plans of grandeur if we don't also plan for the curveballs that life throws at us. Our long-term plans become obsolete very quickly if something goes wrong. Preparing for these risks can be done by putting a risk protection strategy in place alongside your wealth accumulation plan. Our advisers will put in place a plan for worst case scenarios, such as death, disability or the inability to work. Often solutions can be implemented through your superannuation or held outside. In this thinkBIG publication, we also provide you with commentary on the considerations you should make based on your age and the lifestyle you desire.

The final part of accumulating long-term wealth is determining the type of investments you should be putting your money into. This area will vary significantly between people, there is no one size fits all approach. Suitable investments can only be determined once your overall goals, objectives and tolerance to investment risk is taken into consideration. In this report, we provide some general commentary on the types of investments you could consider, in each age category.

We hope you enjoy this read.

Super strategies for ages 18–40

The early years

Research by the Australian superannuation industry[1] has found that Australians aged under 30 tend to have more superannuation than they do money in their bank accounts, yet 56% have no idea what their super balance is nor the importance of it. Making smart decisions in your 20s and 30s can ultimately be the difference between a comfortable retirement and a modest one.

Below are a few tips to consider when reviewing your superannuation accounts:

Consolidate multiple funds

We all have regular debits from our bank account that occur monthly, like a gym membership or streaming service, sometimes for services we don't necessarily use and should do something about. The same thing could be happening to you if you have multiple superannuation funds. For example, if you move employers and changed superannuation funds, your old fund could be sitting dormant receiving no contributions. Just like that gym membership you don't use regularly, ongoing fees and potentially insurance premiums will continue to be deducted, eating into your investment returns and overall balance. Consolidating your superannuation accounts won't just reduce the fees you are paying but could also position your fund to generate a greater return over the long-term. However, other issues must be considered, such as insurance cover, so a little strategic planning may be required. The government has recently introduced measures to reduce the number of dormant superannuation accounts. They have not, however, assessed your personal circumstances and retained funds taking into consideration the benefits that suit you, so some research may be required to determine which fund you should be using.

Investment options

If you are under 40, chances are retirement is still a distant dream that seems so far away. However, this is where you can make market volatility your friend! Investing in a high growth investment option as opposed to your fund's default balanced option, will position your superannuation fund to receive greater returns. You will need to remember though that it will be exposed to greater volatility – is this a bad thing? Your regular employer contributions may be invested during a market downturn and consequently, you will be buying cheaper, more attractively priced assets. With a longer timeframe for markets to recover as opposed to someone who is approaching retirement, your superannuation portfolio will ride the waves of volatility and will be positioned to generate greater long-term returns over the journey.

Contributions

Contributing to superannuation may not be your highest priority at this stage in your life. You may have competing priorities for your surplus income. However, a small contribution in this area may result in substantial differences in the long-term. You could salary sacrifice a small portion of your income (see concessional contributions on page 8) or otherwise take advantage of the government co-contribution scheme, which is beneficial if your income is below $53,564 in a financial year. For every $1 you contribute to superannuation, the government will contribute a further 50 cents up to a maximum of $500. This $500 is reduced by 3.333 cents for every $1 that your income exceeds $38,564, cutting off any benefit if you earn above $53,564.

[1] www.superguru.com.au/about-super/youngpeople

Nowadays, you can even use your voluntary superannuation contributions to tax effectively save for your first home under the First Home Super Saver Scheme. With a bit of planning, you can fast track your initial home deposit which is always hard to save for.

Insurance needs

You will insure your car and your home. But nothing is more important than insuring your biggest asset, your life and your income. If you are suffering a sickness or an injury and were off work for an extended period, how would you fund your living expenses? Most Australians don't have savings to cover this scenario and would most likely have to sell their house or their car to fund their living expenses. For others, they may have to declare bankruptcy. If you protected your income you could continue to pay the mortgage, general living expenses, and your children's education and ensure you and your family continue to live the lifestyle you do now.

For a young person, insurance is generally quite cheap, and in some cases, tax deductible. Young people should generally have enough insurance to either buy themselves a house or repay debt, plus cover living expenses in the event of a long-term injury or illness which prevents them from working. This saves them having to line up at Centrelink for the Disability Pension which is roughly $24,500 per annum.

Reviewing these recommendations and applying them to your situation will have a major impact on your future. Act now whilst time is still on your side. Don't wait until it's too late.

Super strategies for ages 40–55

The plan is as important as the goals

If you ask an eight-year-old what she sees herself doing when she turns 18, she will probably say she plans to leave home and live with friends. Ask her how she plans to pay for her expenses, and she will probably proclaim she will get a job.

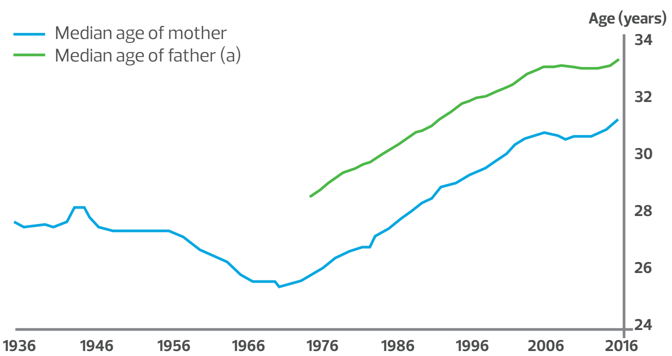
It's a nice plan, but aside from having a goal, not much thought has gone into how this will work and if it is realistic. No consideration has been made of the fact that she still has to go to school and will want to play with her friends. Her focus won't be on her goal for long.

The problem is that life moves very fast. And not much changes when we become adults, especially when we have children. The hustle and bustle of everyday life means we tend to focus on the present such as getting kids through school or paying our mortgage or building our business.

But before we know it, there is a pandemic taking over the world causing a share market crash, creating panic and leading people to make poor and costly decisions. Without a plan, our goals disappear faster than toilet paper at Woolworths.

The reality is, we don't have as much time as our parents had. A trend in Australia is that people are having children later in life.

Median age of parents, Australia 1936–2016



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This means our focus on our children occurs much later than past generations. If you are having children at age 31–33, your children are turning 18 when you are aged between 49–51. Not much time to plan for your retirement, especially if you want to retire early.

This makes it more important to plan for your future now – determine what you can do to improve your retirement sooner, rather than let the planning for the last 15 years of your working life do all the heavy lifting.

See, a plan does two main things:

1. It reminds us of our goal and keeps us focused; and
2. Puts in place steps that help us achieve our goals.

That's really the essence of what we do as financial advisers. Focus on people's goals and set plans to help them achieve their goals.

So, what are some simple tips you can do now to help you prior to the kids leaving home?

Investment options

It's really easy in today's environment to look at your superannuation and think, "I'd better sell before the market drops any further." But you can't touch your money until you are in your 60s and history shows us that staying invested is the best course of action. Remember that old adage, 'It's about time in the markets, not timing the market'. As advisers, we see the mistakes that many DIY investors make such as converting their superannuation to cash after a market correction, only to switch back into aggressive investments after a recovery is well underway.

Back to contents

It's important to review your asset allocation regularly to ensure the assets you are invested in will actually achieve your goals. Have a look at your next superannuation statement. It will show you what assets your money is invested in. If your superannuation balance is quite low, you may need to take higher amounts of investment risk to catch up and build a healthy balance for retirement. If you have a large balance, you may decide that you do not need to take as much risk moving forward.

If you have an industry fund, then have a look at your superannuation fund's Product Disclosure Statement. It may provide an example that shows how over a period of time, say 20 years, you are likely to have a negative year and how big that fall may be.

If you have a financial adviser and have developed a more personalised, strategic asset allocation, make sure you are speaking with them about your goals and overall asset allocation.

Generally speaking, if you are between age 40 to 55 you should have a higher weighting of 60–80% to growth assets such as shares and property, with the balance in defensive assets such as cash and fixed interest investments. As you get closer to retirement, you should plan to increase your defensive assets which may be used to fund short to medium term living expenses in retirement.

Contributions

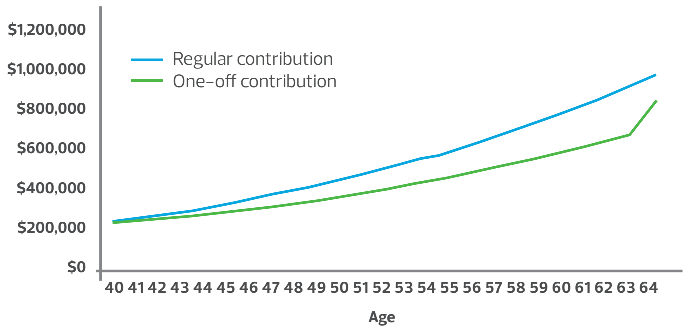
Superannuation is the most tax effective investment structure, so it's important you continually add to your super to take advantage of this.

If you're an employee, your employer should be making contributions on your behalf. If you are self-employed, you should be paying yourself superannuation. Treat yourself as an employee of your own business. If you cannot afford it then maybe you need to review the budget of your business or your personal expenses.

Salary sacrificing some of your wages into superannuation may be the most tax effective wealth accumulation strategy. There are limits on how much you can contribute tax effectively each year. If you don't use these limits, you lose them, so seek advice on whether this may be appropriate for you.

While there are positive tax benefits of contributing to superannuation, the biggest reason to be ramping up your contributions is the power of compound returns, which is shown in the chart below. Regular contributions make a big impact over time. Plus, it is much easier to come up with $5,000 a year than it is $130,000 in one year.

Regular vs one-off contributions



Insurance needs

A financial adviser will help you plan the specific levels of insurance cover you require based on your needs and future financial liabilities. For example, you may have enough life insurance cover in place to pay down all your debts and cover your children's education costs. The level of insurance cover you have in place needs to be regularly reviewed if you fall within this age demographic because of the many lifestyle and financial changes that occur.

There are a number of lifestyle events which may mean you need to increase or decrease your insurance cover.

The events for increasing insurance cover include:

- Taking on more debt to upgrade the family home
- Taking on more debt to expand your business
- A major shortfall in wealth accumulation due to a business failure or accumulating assets later than everyone else
- Family separation
- Additional family members
- Increase in income due to change in your job/promotion (ie increase in income protection cover)

The events for decreasing insurance cover could include:

- Repaying your mortgage
- Children finishing school
- Building up savings and superannuation balances

It is important to have a plan in place to ensure you reach your goals. Remember that COVID-19 is a once-in-a-lifetime pandemic, but it's only been 11 years since the global financial crisis. This means we could see another share market crash before you retire. You should have a plan in place so that should another downturn occur, just before you retire, you won't have to change your goals.

Super strategies for ages 55 through to retirement

The final sprint

Heading towards age 55, many people turn their attention to their retirement savings in a way they never have before. For many, events such as children leaving home, less mortgage pressure and higher household earning potential may mean surplus cashflow increases. When combined with reaching an age where accessing superannuation is within reach, opportunities to save money for retirement become more attractive and financially realistic.

Why superannuation?

Superannuation is a preferred retirement savings vehicle for many due to the tax concessions available.

These concessions include:

- Tax deductions against personal income for concessional contributions (limits apply, see below for examples)
- A maximum tax rate on investment income of 15% and 10% on capital gains (where asset has been held for longer than 12 months) while funds are in accumulation (pre-retirement) phase
- Tax-free income once in pension (retirement) phase and where the recipient is over age 60
- Tax-free investment earnings on assets supporting a pension once in pension phase

Example

Bill is 55 and has a $300,000 investment portfolio that he has built up over time. Bill also earns an average of $70,000 per annum from his plumbing business. Bill's marginal tax rate is 34.5%, including the Medicare Levy. This means investment income and taxable capital gains on his investment portfolio are taxed at 34.5%. This compares to the maximum tax rate of 15% in superannuation as mentioned above. If Bill earned a 10% return on this money (if held in his own name), he would have paid $10,350 tax, whilst if this was in superannuation he would have only paid $4,500 in taxes. A saving of $5,850 every year.

The trade-off for receiving these tax concessions is access. Individuals must meet certain criteria to access their superannuation savings, including restrictions on age and retirement status. Please refer to our facts and figures page for more information.

Let's explore a number of opportunities for those who would like to boost their retirement savings.

Concessional and catch-up concessional contributions

Concessional contributions are pre-tax superannuation contributions. A key benefit of concessional contributions is that the contribution amount is tax deductible, provided certain conditions are met. The contribution is taxed at 15% upon entry into your superannuation and will save investors the difference between their marginal tax rate and 15%. If your income is above $250,000 per annum, there is an additional tax of 15% on the contribution to superannuation.

The current concessional contribution limit is $25,000 per annum, however, starting from the 2019/20 financial year, individuals are able to carry forward any unused concessional contributions cap from the previous five financial years (commencing from 1 July 2018). This is provided the individual's total superannuation balance does not exceed $500,000 as at 30 June prior to the financial year in which the catch-up contribution is made.

Example

Fiona is 57 and has $200,000 in superannuation as at 30 June 2019. In the 2018/19 financial year, her employer made superannuation guarantee contributions of $9,500. Fiona made no additional contributions. This means Fiona has a carry-forward amount of $15,500 available.

In the (current) 2019/20 financial year, Fiona's cashflow position has changed substantially, due to a combination of one of her children finishing school and leaving home and the completion of car loan payments. In order to boost her retirement savings, Fiona commences regular concessional superannuation contributions via salary sacrifice with her employer of an additional $9,500 per annum. Fiona notices her cash balance continues to grow, even with these additional contributions, and, after consulting both her financial adviser and accountant who reviews her tax position, Fiona receives advice to contribute another $10,000 before the end of the 2019/20 financial year as a

Back to contents

concessional contribution. This brings her total concessional contributions to $29,000, including her $9,500 employer contribution. Ordinarily this would breach the concessional contribution cap by $4,000, but by using her carry-forward cap, she still has $11,500 remaining, which will carry over to the 2020/21 financial year. This, and the estimated tax saving, is shown below:

FIONA	Financial Year 2018/19	Financial Year 2019/20
Salary	$100,000	$100,000
Superannuation Guarantee Contributions (9.50%)	$9,500	$9,500
Salary Sacrifice Contributions	$0	$9,500
Personal Concessional Contributions	$0	$10,000
Total Concessional Superannuation Contributions	**$9,500**	**$29,000**
Concessional Contribution Limit	$25,000	$40,500
Contribution Cap Remaining	$15,500	$11,500
Taxable Income	$100,000	$80,500
Tax Payable (Based on 2019/20 rates)	$25,717	$18,240
Contributions Tax (15%)	1,425	4,350
Total Tax Payable	**$27,142**	**$22,590**
Estimated Tax Saving		**$4,552**

Non-concessional contributions

The current non-concessional contribution limit is $100,000 per annum. However, individuals are able to bring forward the following two years' worth of contributions to bring the potential non-concessional cap to $300,000 in any given year, provided the individual's total superannuation balance did not exceed $1,400,000 as at the 30 June prior to the financial year in which the contribution is made. Once the bring forward provisions are triggered (i.e. by contributing over $100,000 in any given financial year), the maximum amount that can be contributed is $300,000 across the three financial years, as long as you are under age 65.

Example

Andrew is 60 and has $500,000 in superannuation as at 30 June 2019. In March 2020, Andrew's father sadly passes away, leaving him an inheritance of $380,000 in cash. After consulting with his financial adviser, Andrew makes a contribution of $80,000 in June 2020 and $300,000 in July 2020 (after ensuring his balance on 30 June 2020 was under $1,400,000). He is now not eligible to make any contributions until 1 July 2023, but he has maximised his available contribution caps by spreading the contributions over two financial years.

Investment options

As you get closer to retirement you should consider seeking financial advice. Many investors remain in the default My Super options in the lead up to their retirement. Generally, these are quite aggressive investment options with higher weightings to shares and property. This may work well when the market is racing along however when you have market shocks such as COVID-19, many pre-retirees can no longer afford to retire. A good financial adviser will balance the level of risk you are taking with the timing of your retirement. It is common for an adviser to increase the defensive assets as you get closer to drawing on your capital. As an example, our advisers may recommend having two to three years of living expenses in cash or its equivalent to fund retirement living expenses. Whilst this dampens returns, at times like these, the conservative approach will pay off. It also means not having to sell growth investments at major discounts to fund living expenses.

Insurance needs

Generally, insurance now is less important as you have paid off your mortgage and the children have left home. The cost of life, disability and income protection also increase dramatically, and some people will cancel their insurance cover as they no longer see value. We will always suggest seeking financial advice prior to cancelling any insurance cover as well as obtaining a full medical check. This way you are fully informed of both the financial impact and likelihood of being able to claim on the cover before it is cancelled.

Although insurance such as life, disability and income protection may not be that important for you, it is extremely important for your adult children. Too often we see parents retirement plans decimated as a result of their children suffering an injury or illness preventing them from working. The bank of mum and dad is always the last resort and that includes their retirement savings. Parents should ensure children have sought advice on the appropriate levels of insurance cover they need. Your children may not see the need or have the ability to pay for this cover, however as parents you should stress the importance and consider if you assist with the cost, afterall it is protecting your retirement as well.

As retirement is only around the corner for those of us in our 50s, you should act quickly to start making a meaningful impact on your retirement planning. A little bit of planning now avoids the heavy lifting in the last few years of your working life.

Super strategies for retirees

Managing your income stream and its risks

Throughout our working lives, most of us have been paid regularly by our employers, or if you are self-employed, by taking a regular wage or drawings from your own business. Retirement is different. In retirement, people will convert their superannuation to an account-based pension. This will allow them to receive a regular income stream from their superannuation. People then get to choose how much and how often they get paid from this regular income stream.

For most retirees, your account-based pension will be the main source of income, potentially supplemented by a part Age Pension entitlement. It is therefore essential to prudently manage this asset and the potential risks to your capital to secure the longevity of your retirement savings.

Determine what your desired lifestyle will cost

The Association of Superannuation Funds of Australia (ASFA) has produced benchmarks for the superannuation balance required at retirement age to fund a 'comfortable' or 'basic' standard of living. For a 'comfortable' lifestyle, a couple will need $640,000 in superannuation savings which will enable regular dining out, regular leisure activities, domestic and overseas travel and private health insurance. In Australia, males retire with an average superannuation balance of $270,710, whilst females retire with $157,049, leaving most Australian couples unable to afford ASFA's 'comfortable' standard of retirement living.

Drawdown rules for retirees

There are minimum drawdown rules that apply to account-based pensions which are designed to see your capital being spent and reduced over time. The minimum drawdown is determined by age starting at 4% of your account-based pension balance under age 65, increasing incrementally to 14% at the age of 95 or more. Due to the Coronavirus, the government has reduced the minimum drawdown rates by half for the 2019/20 and 2020/21 financial years. This is to reduce the impact of drawings on retirement savings.

Most retirees prefer to spend more in their earlier, active years of retirement, drawing more from their capital than in the later years. Regular payments from your account-based pension will be funded through a number of ways. Having a generic superannuation fund with one single investment option will most likely mean you have a multisector fund. This investment option will invest in a range of cash, fixed interest, property and equity investments. This means that your regular withdrawals are being funded by selling down assets from the underlying investments. This is fine whilst the share market is booming, but when battling a global health crisis, you are selling share and property investments which have fallen over 30% to fund your living expenses.

Another way of structuring your account-based pension is to ensure that your withdrawals are funded from the cash component of your account-based pension which is stable and not subject to investment market fluctuations. As this cash balance reduces over time, it can be 'topped up' with investment earnings from other assets in your account-based pension portfolio which may include fixed interest investments, shares, and property. The careful and continuous management of the investments and liquidity within your account-based pension will support your ongoing drawdown strategy throughout the various stages of retirement and ensure funds remain available for larger, unexpected expenses such as medical costs.

Understanding sequencing risk

One often overlooked risk to the longevity of your retirement savings is that of sequencing risk. Sequencing risk is the risk resulting from the order of investment market conditions and investment returns throughout the lifecycle of your account-based pension. Poor returns in the early years of retirement when larger income drawdowns occur may be detrimental to the longevity of your retirement savings. By drawing down more of your capital during volatile market conditions, you reduce the capital that is available to generate investment earnings in the latter years of retirement. A strategy to manage sequencing risk is to maintain a flexible approach to spending or retaining large cash balances which can be drawn on during market downturns. Sequencing risk is reduced by cutting spending after a decline in the value of investments, allowing more money to remain in the investment to benefit from any subsequent market recovery. This may be difficult for retirees to implement in the early years of retirement

Back to contents

when retirement spending is generally higher, as it may impact goals such as regular travel while health permits.

Another option is to have other assets such as cash (ie buffer assets) available outside the account-based pension to draw from after a market downturn. The buffer assets should not be correlated with the account-based pension portfolio, as the buffer will only be used to support spending when the pension portfolio has experienced a downturn. As an example, the buffer assets may be a separate cash reserve with two- or three-years retirement expenses.

It is vitally important to have a plan in place to grow and protect your retirement assets. As our life expectancies increase, so too does the demand for the longevity of our retirement savings. Volatile economic and investment market conditions make careful planning and prudent management of your retirement savings essential to ensure you benefit from years of accumulation well into the latter years of retirement.

Downsizer contributions — what you need to know

Many retirees will sell their family home and generally downsize as they get older. In the past, any surplus cash or equity released from the sale would have to remain outside super. Now with the new downsizer contribution rules, anyone over age 65 can make additional contributions to their super. However there are a few tips and a timing limit, so getting advice and planning ahead is critical.

In the past, people would avoid downsizing their home to release equity, as this equity would get stuck in their own name. Here it would need to be invested and taxes paid on earnings. The downsizer rules address this issue as it allows people to contribute $300,000 each (or for a couple $600,000) into their super once they downsize their primary residence. There is no upper age limit or the need to pass the work test and is irrespective of their super balance.

Tax-free retirement income

This provides a great opportunity to invest in the tax effective super environment versus our own names and also to generate further tax-free income in retirement. This is important as with lower or no taxes, it helps retirement money last longer.

The downsizer rules also open up a range of other opportunities including:

- Downsizing does not actually mean buying a cheaper property. You can sell your primary residence, buy an equal or greater value property and still place money into your superannuation
- You are not obliged to buy another property; selling the home simply provides the ability to make the contributions
- Since the contributions are 'tax-free' this helps improve estate planning since the tax-free components within super or pension accounts are also paid out tax-free upon death
- A lump sum withdrawal and recontribution strategy might also be considered to help increase the tax-free amounts in super and improve estate planning, although specific advice should be sought in this regard

Tips and traps

The way these rules have been written are complex and some checks need to be done prior to deciding if this is a good idea for you. Planning ahead is important since the contributions must be made within 90 days of receiving the sale proceeds. Also, you must have owned the home for more than 10 years, although only part of the time needs to be as a principal residence, and if a couple, only one person needs to have been the owner.

Careful consideration should also be given to Centrelink Age Pension or the Department of Veteran Affairs' pension matters, since releasing equity from the family home [an exempt asset] and buying another home, will see the net proceeds being assessed under the assets and income tests with potential reductions to pensions.

Example

Consider Tom and Lisa, in their 70s who sell their family home for $1,200,000 and downsize to a $700,000 apartment. This releases $500,000 and if they meet the various conditions, they could contribute this amount to super between them. If they have other cash available, they could add a further $100,000 to bring their contributions up to $300,000 each or $600,000 combined.

Conversely, if the home they sold is more modest in value, for example say $500,000, then the combined contributions cannot exceed the proceeds; that is they cannot make combined contributions of $600,000. Despite this restriction, the proceeds can be split unevenly with, for example, Lisa contributing $300,000 and Tom contributing $200,000.

As mentioned earlier, it is not necessary to actually downsize or buy another property. For example, you may sell the family home and move into an existing investment or other lifestyle property; selling and meeting the various conditions allows other cash to be utilised for the contributions.

In summary, the downsizing contribution rules can be a huge opportunity for you. Whether it be to add to your retirement savings, extend the longevity of your capital, or increase your tax-free income, it can provide you peace of mind knowing you have more options in retirement. If you are over 65 and thinking of selling your home, or downsizing your home, you should speak to a financial adviser to consider all the options.

My business is my super?

We often hear the comment from business owners that they do not make regular contributions to superannuation as their business is their superannuation. That is, the business will be sold one day in the future to fund their retirement.

The sale of a small business is currently subject to various tax concessions and if you are eligible for the tax concessions there is potential for some or all of the sale proceeds to be contributed to superannuation.

In accessing these concessions there are several hurdles to clear and many potential traps.

Small business CGT concessions

To be eligible for the small business CGT concessions there are two potential methods of being eligible:

1. Business turnover is $2m or less.
2. Net assets, including assets of affiliated or connected entities is less than $6m, excluding superannuation and the family home.

The asset being sold needs to be an active asset in that it is held ready for use in carrying on a business. This can include the goodwill, a business or land and buildings.

As a part of the planning for a future business sale, consideration should be given to the potential for the small business concessions to apply, including meeting the eligibility criteria.

The concessions

Assuming the business owner is eligible of the small business concessions, the following potential concessions apply:

- **15-year exemption**
  The entire capital gain is tax-free, provided that the individual is over 55 years of age and the sale is in connection with their retirement, or permanent incapacity.
- **50% active asset reduction**
  A reduction of taxable gain generated by 50% based on the asset being an active business asset. After allowing for the general discount for the asset being owned for a period of more than 12 months, this can result in 25% of the gain being taxable. This is an optional concession and there are benefits in choosing not to apply it.

- **Retirement exemption**
  A lifetime limit of up to $500,000 can be tax-free under the retirement concession. If you are over 55 at the time of making the capital gain, there is no requirement to contribute anything to superannuation. If you are under 55 the amount chosen as the retirement concession amount must be contributed to superannuation.
- **Small business rollover**
  You can elect to defer the capital gain on the sale of a small business asset by offsetting it against the cost of a new active asset acquired within two years. If no new active asset is acquired, the tax on the gain is payable after the two years expire.

Superannuation contributions

The ability for some of the proceeds to be contributed to superannuation after the sale of a small business asset allows for the business owner to potentially use their business as their superannuation.

Importantly, any contributions under the small business concessions do not count to the concessional or non-concessional contribution caps. Further, they are not impacted by the total superannuation balance of the member precluding a contribution being made.

The following contributions can potentially be made where the small business concessions are utilised:

- **15-year exemption**
  Capital proceeds from the asset sale of up to the CGT cap, which is currently $1.515m for the 2020 year. Importantly, the maximum contribution is calculated with reference to the capital proceeds received, not the capital gain generated. As such, it is possible to make this contribution where a capital loss is generated. Further, contributions can also potentially be made where the asset was acquired before the introduction of capital gains tax on 19 September 1985.
- **Retirement exemption**
  The exemption is capped at the $500,000 lifetime cap of the amount that the retirement concession is chosen to apply for by the taxpayer. Where the individual is under 55 the proceeds must be contributed to superannuation. There is no requirement for the over 55s to contribute, however it may be prudent to consider making the contributions.

The traps

When planning the contributions of the proceeds from the sale of the business asset to superannuation, there are potential traps to be mindful of.

- **Timing of contributions**
  There are strict time limits in which the contributions need to be made to superannuation to qualify as a small business concession contribution. Generally, the small business CGT contributions need to be made by the later lodgement due date of the tax return containing the capital gain, or 30 days after receiving the capital proceeds. In the event the contributions are not made within these time frames, they will not be eligible to be considered small business contributions.
- **Documentation**
  At the time of making the contribution to superannuation, the relevant documents need to be provided by the fund trustee informing them that the contribution is a small business CGT contribution. Without this document being provided the trustee may not be able to accept the contribution.
- **Eligibility to contribute**
  The individual needs to be eligible to contribute to superannuation, which is principally an issue for over 65s, and individuals over 75 are unable to contribute to superannuation.

A great benefit

The ability to make contributions to superannuation from the sale of small business assets can help a business owner use their business as their superannuation.

This should be a carefully planned transaction, to ensure eligibility for the small business concessions and that contributions are made to superannuation correctly, including the ability to potentially utilise the concessional and non-concessional contribution caps.

By planning the sale of a business correctly, the business owner can potentially make significant contributions to superannuation, which can assist them in meeting their retirement needs.

COVID-19 and investments

Investing in a low interest and volatile environment – what to do?

Diversification is often described as 'not having all of your eggs in the one basket'. With your money invested in different asset classes, depending on your preference for risk and return, diversification is considered to be one of the basic principles of financial planning. A 'balanced portfolio' will often have the following mix of assets:

- Cash 10%
- Australian fixed interest 25%
- International fixed interest 15%
- Australian shares 25%
- International shares 15%
- Property 10%

However, what happens when the 'defensive' part of the portfolio, or the 'low risk' part of the portfolio offers little return when interest rates are so low?

Let's explore this, considering current events.

With the recent panic and share market sell off due to the Coronavirus scare, the Australian and international share and property sections of the above portfolio have corrected downwards. The cash and fixed interest components however have held up quite well. Hence the 'balance' of the portfolio has helped cushion the downturn in equity markets.

Cash and fixed interest (including term deposits), provide a cushioning effect in times of share market volatility.

Investors may even have more cash and fixed interest in their portfolio as they age. Protection and security of their funds is front of mind.

What we have noticed as rates on term deposits and cash have gone below 2%, is that investors have looked to move out of the safety of cash and term deposits into riskier assets. With share markets going up, this proved to be fine, however selling shares after a correction now to move back into fixed interest, cash and term deposits could destroy their chance at retaining that wealth.

Why stay invested in shares and property assets?

Shares pay income as dividends. Property pays income from rent. This is received as income to the owner of the assets, including investors in superannuation.

Investors should still receive an income return albeit potentially a little lower whilst waiting for the inevitable recovery in asset prices.

Why rebalance assets?

Talking to a good financial planner will often lead to this discussion. The discipline of moving defensive assets (ie cash and fixed interest) into depressed growth assets (ie shares and property) in times of extreme market volatility can pay off handsomely in the long run.

What is dollar cost averaging?

This is a strategy in which an investor places a fixed dollar amount in a given investment on a regular basis. The investment usually takes place regardless of what is happening in the financial markets. This can eliminate the issue of trying to time the market.

How can investors act with a long-term focus?

Investors must resist natural tendencies to panic in times of market stress.

Trying to "get in and out" during a downturn in an attempt to make a short-term profit can be particularly dangerous. Many have attempted such a strategy only to find they enter back into the market at more elevated levels. Investing in growth assets should only be done with a long-term investment horizon with the understanding that your capital will go up and down with market cycles.

What are the other options?

Investing for income in this low rate environment will be difficult however there are some other options than the assets listed above.

- **Annuities**
  Like a term deposit with a fixed maturity but usually higher yielding as the provider invests in a wider range of asset classes. As with term deposits they cannot be redeemed quickly. As with most assets, the rates offered on Annuities have come down significantly over recent months, and as such, you will need to blend these with other assets in a portfolio.
- **Hybrids**
  A blend of shares and bonds, they are listed on the Australian Stock Exchange (ASX) and often hold their value better than shares in times of market stress. They also generally pay quarterly dividends which help with regular cash flow.
- **A-REIT**
  Real Estate is a favourite of many investors. One way to gain access to rental income without having to worry about dealing with tenants is using Australian Real Estate Investment Trusts (A-REIT). Often quite high yielding when compared to cash and fixed interest, they can be listed on the ASX or unlisted. Again these are subject to market movements but may move differently to shares and other growth assets.
- **Infrastructure Investment**
  These have taken off over the last few years, given their predictable income streams generated from core infrastructure like toll roads, airports, power networks, pipelines. Often quite high yielding when compared to cash and fixed interest, they can be listed on the ASX or unlisted. These assets may have large amounts of debt to fund projects which increases their sensitivity to interest rate changes. Such investments will be subject to market volatility in a similar way to equities and property investments.

As with all investment decisions, investors should seek personal financial advice to understand the benefits of each type of investment option, the underlying risks, and if they are appropriate for their circumstances. Generally there is no one size fits all option and the best solution may involve a combination of different assets.

Superannuation: Facts and figures

Contribution caps (subject to eligibility)

Contribution type	2019-20
Concessional contribution cap	$25,000
Non-concessional contribution cap	
Total super balance below $1.6 million as at 30 June 2019	$100,000
Total super balance $1.6 million or more as at 30 June 2019	Nil
CGT lifetime cap	$1,515,000
Downsizer contribution cap	$300,000

Non-concessional contribution – Bring forward rule cap (subject to eligibility)

Total superannuation balance at 30 June 2019	Non-concessional contributions cap including bring-forward
Less than $1,400,000	$300,000
$1,400,000 – $1,499,999	$200,000
$1,500,000 – $1,599,999	$100,000
$1,600,000 or more	Nil

Tax treatment of contributions (within superannuation)

Contribution type	Tax rate (2019-20)
Concessional Contributions	
If individual's income is below $250,000	15%
If individual's income above $250,000	30%
Non-Concessional Contributions	Nil
CGT Lifetime Contributions	Nil
Downsizer Contributions	Nil
Government Co-contributions	Nil

**Please note, should you exceed the contribution caps, additional tax may apply.*

Tax rate applicable to assessable income

Ownership structure	Tax rate (2019-20)
Personal	Individual's marginal tax rate
Superannuation	
Accumulation Phase	15%
Pension Phase	Nil

Minimum pension drawdown rates

Age	Standard minimum drawdown factor	Reduced drawdown factor (2019-20 & 2020-21)
Under Age 65	4%	2%
Age 65-74	5%	2.50%
Age 75-79	6%	3%
Age 80-84	7%	3.50%
Age 85-89	9%	4.50%
Age 90-94	11%	5.50%
Age 95 and over	14%	7%

**Please note, if an account-based pension commences on or after 1 June, no payment is required for the financial year in which the pension commenced.*

CONDITIONS OF RELEASE

In order to access some or all of your superannuation, you must meet a condition of release. These are outlined below, but not all conditions allow you full access to your superannuation benefits.

Retirement conditions of release:

- reaching preservation age and retiring
- reaching preservation age and commencing a transition-to-retirement income stream
- ceasing an employment arrangement on or after the age of 60
- reaching 65 years of age (even if not retired)

Additional conditions of release:

- death
- permanent incapacity
- terminal medical condition
- termination of gainful employment (restricted non-preserved benefits only)
- severe financial hardship
- compassionate grounds

Preservation ages

Date of birth	Preservation age	Financial year preservation age is attained
Before 1 July 1960	55	2014-15 and prior
1 July 1960 to 30 June 1961	56	2016-17
1 July 1961 to 30 June 1962	57	2018-19
1 July 1962 to 30 June 1963	58	2020-21
1 July 1963 to 30 June 1964	59	2022-23
On or after 1 July 1964	60	2024-25 and later

Deductibility of personal insurance premiums

Insurance type	Inside super	Outside super
Death cover	Tax deductable to the super fund	Non tax deductable
Total & Permanent Disability	Tax deductable to the super fund	Non tax deductable
Trauma	N/A	Non tax deductable
Income protection	Tax deductable to the super fund	Tax deductable to the individual

**Please note, the above applies to insurance which is taken out for personal purposes. Different tax treatment may apply to business insurance, key person insurance and buy/sell insurance.*

Tax treatment of personal insurance claims

Insurance type	Tax rate (2019-20)	
	Inside super	Outside super
Death Cover	Nil	Nil
Total & Permanent Disability	0% – 22% (depending on recipients age)	Nil
Trauma	N/A	Nil
Income Protection	Individual's marginal tax rate	Individual's marginal tax rate

**Please note, the above applies to insurance which is taken out for personal purposes. Different tax treatment may apply to business insurance, key person insurance and buy/sell insurance.*

Tax treatment of superannuation lump sum withdrawals paid to the member

Age	Lump sum		
	Tax-free component	Taxable (taxed) component	Taxable (untaxed) component
Below preservation age	Nil	20%	First $1,515,000 – 30% Over $1,515,000 – 45%
Preservation age to 59	Nil	First $210,000 – Nil Over $210,000 – 15%	First $210,000 –15% $210,000 – $1,515,000 – 30% Over $1,515,000 – 45%
60 and above	Nil	Nil	First $1,515,000 – 30% Over $1,515,000 – 45%

**Please note, different tax treatment applies where the benefit is paid as a lump sum death benefit*

Tax treatment of superannuation income streams paid to the member

Age	Income stream		
	Tax-free component	Taxable (taxed) component	Taxable (untaxed) component
Below preservation age	Nil	Marginal tax rate	Marginal tax rate
Preservation age to 59	Nil	Marginal tax rate (less 15% tax offset)	Marginal tax rate
60 and above	Nil	Nil	Marginal tax rate (less 10% tax offset)

**Please note, different tax treatment applies where the benefit is paid as a death benefit income stream*

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