

Stretch your dollar with super

Could you be saving tax and earning more with an investment in super?

Which will provide greater returns - an investment in superannuation or outside of superannuation? Super is not only essential for your future, it can also be part of a tax effective wealth creation strategy.

Why a super investment?

Super investments are in some ways very similar to non-super investments.

With either, you can invest in a range of assets such as Australian shares, international shares, bonds, cash and property - and by contributing to your investment on a regular basis, you can watch your capital grow over time through the power of compounding.

While a super investment can't generally be accessed until later in life, the tax advantages you can gain are a key reason why investing in super can maximise your investment returns.

What are some of the advantages of investing in super?

Save tax on investment earnings

A low maximum tax rate of 15% applies on your investment earnings within super.

If you had the money invested elsewhere then the tax on the investment earnings would normally be at your marginal tax rate of up to 46.5% including Medicare Levy - see the case study of Julia overleaf.

Save tax by salary sacrificing

When you contribute into your super fund with pre-tax dollars (salary sacrifice), your contribution is only taxed at 15% or less. If you received this as part of your salary, it would be taxed at your marginal tax rate of up to 46.5% including Medicare Levy.



Invest and claim a tax deduction

If you are self-employed and make a personal contribution into super, you can claim a tax deduction for that full amount, up to a maximum of \$25,000 per financial year (a transitional limit of \$50,000 applies for those over 50 until 1 July 2012.)

Claim the Government Co-contribution

If you earn less than \$61,920 and make an after tax contribution into your super fund, you may be eligible to claim a co-contribution from the Government of up to \$1,000 per year - check with your adviser to see if you are eligible.

Future Advantage

Pay no tax on withdrawals or pension payments from super once you retire. If you are over 60 and want to take a pension or lump sum from your super, you will generally pay no tax on the amount withdrawn.

Investing into super can be tax advantageous now, but also later once you retire. The tax-free rule will apply to most pensions taken out before and after this date.

Case study: Julia

Saving through super can be much more tax effective than saving the same amount outside super. In Julia's case, this can make a real difference to how much money she'll eventually have for her retirement.

Consider three scenarios:

- Julia's employer pays her \$5,000 salary in cash and she invests the money outside super (her marginal tax rate is 31.5%).
- Julia's employer pays her \$5,000 salary in cash and she invests the money outside super (her marginal tax rate is 46.5%).
- Julia's employer pays \$5,000 a year into her super account (15% contributions tax applies).

All three scenarios assume Julia will do this every year for 20 years and that the average performance return for each year is 7% pa.

Super can give you sizeable tax savings			
Considerations	a. Outside Super 31.5% tax payer	b. Outside Super 46.5% tax payer#	c. Inside Super 15% tax
Before tax investment amount	\$5,000	\$5,000	\$5,000
After tax investment amount	\$3,425	\$2,675	\$4,250
Plus 7% return	\$240	\$187	\$298
Less tax on returns	\$31 [^]	\$42 [^]	\$7 [^]
Financial position after year 1†	\$3,634	\$2,820	\$4,541
Financial position after year 20	\$78,369	\$55,219	\$108,123

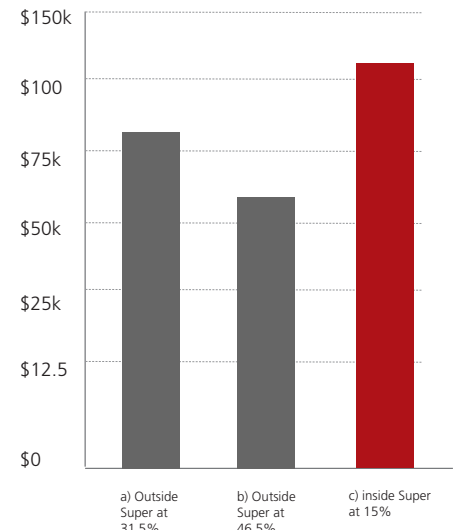
As you can see, there are significant differences in the outcome for Julia, depending on which approach to her super she chooses.

What is the right investment strategy for you?

To find out more about Bates Cosgrave Financial Services can help you maximise your super, your retirement income and minimise your tax liability, call us on 02 9957 4033 or visit our website at www.batescosgrave.com.au.

General advice warning: The advice provided is general advice only as, in preparing it we did not take into account your investment objectives financial situation or particular needs. Before making an investment decision on the basis of this advice, you should consider how appropriate the advice is to your particular investment needs and objectives. You should also consider the relevant Product Disclosure Statement before making any decision relating to a financial product.

Graph 1 - 10 year comparison of investing in super vs a non-super investment



Assumptions

This chart is for illustration purposes only. Please note that a change to any assumptions in this illustration will produce different results.

[^] It assumes pre-tax returns of 7% pa (4% income, 3% capital growth). Assets are realised every five years. Inside super, two-thirds of any capital gains are taxed at 15%. Outside super, capital gains are taxed at the marginal tax rates of 31.5% and 46.5%. Company tax is 30% for franking purposes. Results are adjusted for an annual inflation rate of 2.5%.

† Tax in year 1 is on income only.

The maximum tax rate.

With this illustration, after just one year a person who pays 31.5% tax (a) would have over 20% more money in their super account and 35% more money after 20 years. That's a difference of \$29,754 if person (a) salary sacrifices into super. Whereas the benefits to a person (b) who pays 46.5% tax are even greater, with almost twice as much money after 20 years. That's a difference of \$52,904 if person (b) salary sacrifices into super.

The contributions and performance returns inside super are taxed at a maximum of 15%, so they compound at a much faster rate. Outside super the salary and performance returns are taxed at 31.5%* and 46.5%* so the after tax returns are much lower.

* Investment returns outside super may be eligible for tax concessions such as concessional gains tax and franking credits, reducing these tax rates.

Source: Colonial First State Product Education: Super strategies

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