# Tax advantages

## Making super less taxing

When you're saving for your retirement, everything counts. You need to take advantage of every opportunity to build up your retirement nest egg.

So when you retire, you won't have to compromise the standard of living you've worked so hard to achieve.

And as Australians are living longer, and enjoying more active retirements than ever before, you'll need your savings to generate an income, keep up with inflation, and last the distance.

### Super has a super tax advantage

Superannuation offers some tax breaks you simply can't get anywhere else. It's a great way to close the gap between where you are now and where you want to be in retirement.

You can pay up to $30,000 into your super (or $35,000 if you're 50 or over) from your pre-tax salary at the concessional 15% rate of tax (or 30% if you earn over $300,000 a year). That's a big tax saving for most people on their usual marginal tax rate, which can be up to 49%[1].

It means you're boosting your savings before your investments have even started earning on the markets.

And super continues to offer tax concessions all the way down the track—when you put money in, while your investments are earning money and when you take money out in your retirement.

You'll pay just 15% tax on earnings in your super fund before retirement. There are tax-free withdrawals in retirement from age 60. And there's even a tax-effective way to make a gradual transition to retirement and access your super early.

The reality is, the less tax you pay, the more money you can save and the faster your super can grow.

That's why superannuation, with a concessional tax rate of 15% on earnings, is such an effective way to save for retirement.

Of course, super isn't the only way that we can support ourselves in retirement. Other non-super assets such as direct shares, managed funds, investment properties and even cash can also help generate retirement wealth.

However, there are substantial differences in tax when investing in assets through super compared to outside of super.

The income from most investments held outside the super system (for example interest from bank deposits, rent from investment properties and share dividends) is taxed at your marginal tax rate of up to 49%[1] (including Medicare levy and Temporary Budget Repair levy). And when the investments (except cash) are sold, the proceeds may be subject to capital gains tax.

By contrast, earnings in super (from these same types of investments) are taxed at a maximum rate of 15%. While assets within super may also be subject to capital gains tax, in general the capital gains tax will be lower than for assets that are held outside of super.

So, if your income is taxed at more than 15% and you invest through your super, your return will usually be better than a similar investment outside super. As shown in the following table, it's more effective for you to invest in super.

| Investment earnings | Marginal tax rate | Super tax rate | Investment earnings after–tax | |
|---|---|---|---|---|
| | | | Non-super | Super |
| $1,000 | 0.0% | 15% | $1,000 | $850 |
| $1,000 | 21.0% | 15% | $790 | $850 |
| $1,000 | 34.5% | 15% | $655 | $850 |
| $1,000 | 39.0% | 15% | $610 | $850 |
| $1,000 | 49.0[1]% | 15% | $510 | $850 |

**Note:** Rates include Medicare levy (and Temporary Budget Repair levy for the top marginal tax rate).

1 Plus 2% Transitional Budget Repair levy, which is levied on taxable income in excess of $180,000 pa from 1 July 2014, for a period of three years expiring at 30 June 2017.

Once you reach the age of 65 (or age 56 if you satisfy a condition of release such as retirement), your super benefit is accessible at any time. And if you are 60 or over, no tax is payable on super lump-sum withdrawals or pension income.

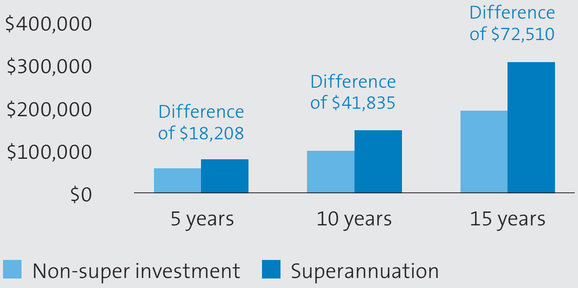
## Investing inside super vs outside – a real difference

For many, the advantage of being able to access their money is important. And as super has strict rules around this, some would rather invest outside super.

However, if you're investing your money to save for retirement anyway, the tax benefits of keeping it in super are considerable.

### Case study

Jody earns $82,000 a year and has a lump sum of $20,000 saved. She can also save $1,000 pre-tax income each month. She worked with her financial planner to compare the possible outcomes when investing these in super or outside. The following graph illustrates the potential benefits of investing in super for retirement.




If she invests $20,000 outside of super in ordinary savings for 10 years, and contributes $1,000 each month as well, it may grow to around $98,407. Investing the same amount in super for 10 years may grow to around $140,242. That's $41,835 more—almost a year's worth of income for a comfortable retirement[1]!

As you can see, access to your investment comes at a price. While there are rules around when you can access your super, the favourable tax treatment of super can make a significant difference to how much you'll have at retirement.

This case study is illustrative only and is not an estimate of the investment returns you will receive or fees and costs you will incur.

1 ASFA Retirement Standard figures for the March 2015 quarter show that for a comfortable lifestyle in retirement, a single person requires $42,569 a year and a couple needs $58,444.

## Assumptions

The projections in this example are based on various assumptions, including but not limited to:

– For both the non-super and superannuation investment, managed fund return—growth rate 2.37% pa, income 4.88% and franking 0.56%[2].
– Non-super regular investments are $1,000 based on pre-tax per month, ie net $610 per month, not indexed over life of projection. Marginal tax rate 37% plus Medicare levy 2% used over life of projection.
– Superannuation contributions are $1,000 per month, which, net of 15% contributions, is $850 per month, not indexed over life of projection.
– Results are adjusted for inflation at 3%. No administration fees or charges have been deducted. Capital gains tax is not taken into account.

2 The prospective financial information provided is not a reliable indicator of future performance in that it is predictive in nature and may be affected by inaccurate assumptions, unknown risks and other uncertainties. Therefore, the prospective financial information may differ materially from the results ultimately achieved.

## Some important points to remember about super tax advantages

– Super is a tax structure that gives you access to concessional tax rates, rather than your normal marginal tax rates.
– You can set up salary sacrifice with your employer so that more of your pre-tax earnings are going into your super and at the same time reducing your overall taxable annual income.
– You can invest in many of the same things you might want to invest in outside of super such as bank deposits, listed companies, property and infrastructure, but with the added benefit of a concessional tax rate.
– Since you can't access your savings until retirement (except in special circumstances), you won't spend your savings before you retire.

## Need more information?

An experienced financial adviser can help you work out the best way to invest your money to ensure you save enough to enjoy a comfortable retirement. Contact your financial adviser to find out more.

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