



Compiled by
Michael Lannon

The new superannuation system **Part I**


Welcome to the new financial year 2007-2008 that heralds the implementation of the new superannuation system. Without a doubt these new rules make superannuation the best way to accumulate wealth.

Significant changes to superannuation were proposed in the 2006 Budget, all of which have now been legislated. In this

article, the first of a two part series, I will look at the new rules that will apply from 1 July 2007 relating to contributions to super and how they will affect you. Next month, I will continue with a review of the rules relating to accessing superannuation benefits, including the taxation of benefits.

Reasonable Benefit Limits, which are abolished from 1 July



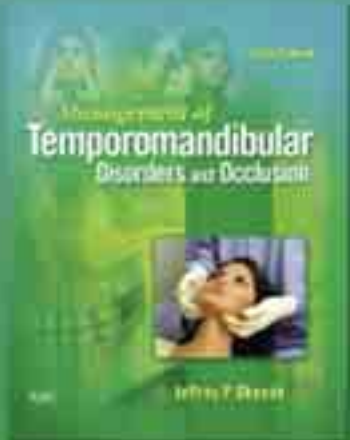
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MANAGEMENT OF TEMPOROMANDIBULAR DISORDERS AND OCCLUSION, 6TH EDITION
Dr Jeffrey P. Okeson
ISBN: 9780323046145 • Mosby • 640 pages • 850 illustrations • Hardcover
Price: \$A128 (ex gst)

Covering new and proven techniques in a rapidly changing field, this best-selling text helps you to provide solutions to many common occlusal and TMD problems. Clear descriptions ensure development of a complete understanding of normal occlusion and masticatory functions, allowing improved management of abnormal occlusion and masticatory dysfunction. With the approach endorsed by Dr Okeson, you'll achieve your treatment goals.

New Features

- Visually depicts treatment principles with examples for each major chapter.
- Presents discussion of the aetiology of temporomandibular disorders.
- Provides background on the causes of chronic orofacial pain.
- Updated references and suggested readings for further research and study.
- Discusses specific treatment techniques based on the author's expertise.
- Many updated photos and line drawings to showcase techniques.
- New section on the use of botulinum toxin to treat chronic pain.
- Expanded discussion of local anaesthetic blocks for diagnosis and therapy.



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investment insight

2007, will effectively be replaced by annual contribution caps. Significant taxes will apply where the caps are breached. The two main types of caps are a 'non-concessional contribution' cap and a 'concessional contribution' cap.

CONCESSIONAL CONTRIBUTIONS

Concessional contributions refer to contributions that are assessable by the super fund. This includes contributions made by an employer (including Superannuation Guarantee and Salary Sacrifice contributions) and, if eligible, personal contributions for which the investor claims a tax deduction.

A cap of \$50,000 per year will apply to concessional contributions from 1 July 2007. This cap will be indexed to full-time average weekly ordinary time earnings (AWOTE) and increased in increments of \$5,000. A transitional concessional contribution cap of \$100,000 per year will apply for the financial years 2007/08 to 2011/12 for investors aged 50 or over at any time in a transitional financial year.

Contributions in excess of the concessional contribution cap will generally be taxed at a penalty rate of 31.5% (in addition to the 15% tax that complying taxed funds are liable to pay on assessable contributions). Contributions in excess of the concessional contribution cap will also be included in the non-concessional contribution cap.

NON-CONCESSIONAL CONTRIBUTIONS

Non-concessional contributions refer to contributions that are not tax deductible to the contributor and not assessable by the super fund such as personal after-tax contributions and spouse contributions. An annual non-concessional contribution cap of \$150,000 will apply from 1 July 2007. A three year non-concessional contribution cap will allow investors to bring forward two years of future contribution entitlements, giving a total cap of \$450,000 over three financial years provided the investor is under age 65 at any time in the first year. This cap is triggered in any financial year when non-concessional contributions exceed the \$150,000 cap. Contributions in excess of the non-concessional contribution cap will be taxed at 46.5%.

Example: Simon would like to make an undeducted contribution of \$600,000 to his super account prior to retiring in 2011. He is aged 60 and will not make any other non-concessional contributions during this period.

	2007/08	2008/09	2009/10	2010/11	Total	
Strategy 1	\$150,000	\$450,000	\$0	\$0	\$600,000	Within cap
Strategy 2	\$100,000	\$200,000	\$300,000	\$0	\$600,000	Exceeds cap

Strategy 1: Simon exceeds the annual non-concessional contribution cap of \$150,000 in the 2008/09 financial year, triggering the 3 year non-concessional contribution cap in that year. Contributions in 2008/09 and the following two financial years do not exceed \$450,000, so the non-concessional cap is not exceeded using this strategy.

Strategy 2: Simon exceeds the annual non-concessional contribution cap of \$150,000 in the 2008/09 financial year, triggering the 3 year non-concessional contribution cap in that year. Contributions in 2008/09 and the following two financial years adds up to \$500,000, exceeding the 3 year non-concessional cap of \$450,000. The \$50,000 excess would be subject to a penalty tax of \$23,500, i.e., \$50,000 x 46.5%.

SUMMARY OF CONCESSIONAL AND NON-CONCESSIONAL CAPS

Age	Concessional contribution cap (pa)	Non-concessional contribution cap (pa)
Under age 50 on last day of financial year	\$50,000 ¹	\$150,000 ¹ or a 3 year limit of \$450,000 ¹
Over age 50, but under age 65 on last day of financial year	\$100,000 ²	\$150,000 ¹ or a 3 year limit of \$450,000 ¹
Over age 65, but under age 75 on last day of financial year	\$100,000 ²	\$150,000 ¹
Over age 75 on first day of financial year	\$100,000 ² (mandated employer contributions only)	Not eligible to make non-concessional contributions

1. This limit applies from 2007/08 and will be indexed periodically. Once triggered, the 3 year non-concessional cap is not indexed. Even if the 3 year cap is triggered under age 65, clients are limited to the annual cap (currently \$150,000) once they are 65 (at the beginning of a financial year).

2. This limit is not indexed and will apply up to 30 June 2012. From 1 July 2012, the indexed \$50,000 cap will apply.

ACCEPTANCE OF CONTRIBUTION RULES

From 1 July 2007 investors will need to satisfy three tests for their super fund to be able to accept contributions. These are an age and work test, a TFN test, and a fund capped non-concessional contributions test (which is subject to the work test and the tax file number test).

- **Age and work test:** Ability to make contributions will be dependent on the member satisfying an age and work test.

Member Aged	Fund may accept contributions:
Under age 65	Made by or on behalf of a member at any time.
Over age 65 but under age 70	Made by or on behalf of a member provided the member has been gainfully employed for at least 40 hours over a period of 30 consecutive days during the financial year in which the contributions are made. Mandated contributions.
Over age 70 but under age 75	Made by the member or voluntary employer contributions (including salary sacrifice) provided: a) The member has been gainfully employed for at least 40 hours over a period of 30 consecutive days during the financial year in which the contributions are made, and b) The contributions are received within 28 days of the end of the month in which the member reaches 75. Mandated contributions.
Over age 75	Mandated contributions only.

- **TFN test:** Super funds will not be able to accept contributions made by the member or any other party on behalf of the member unless the member has quoted their tax file number. The only exception to this rule is for employer contributions, which would be subject to a no-TFN tax if the member has not quoted their tax file number.

- **Fund capped non-concessional contributions test:** Super

funds cannot accept a member contribution that exceeds the non-concessional contribution cap. For any member under 65 years of age on 1 July in the financial year, a three year non-concessional cap of \$450,000 must not be exceeded; for those 65 years of age and over but under 75 on 1 July in the financial year, the annual non-concessional cap must not be exceeded. (Members must also satisfy the age and work test and tax file number test for contributions to be accepted).

Member contributions are broadly defined to include all contributions other than those made by an employer. For this purpose only, member contributions also exclude personal contributions for which a valid tax deduction notice has been received and acknowledged by the fund, contributions arising from personal injury payments, proceeds from the sale of certain 'qualifying small business assets', and Directed Termination Payments (DTPs).

In the event that these tests are not satisfied and a contribution is credited to a member's super account (rather than being rejected), the super fund must reject the contribution or return the contribution to the member within 30 days of becoming aware that the amount was received.


For contributions that fail the TFN test, the super fund does not need to reject or return the contribution (if it has not been returned already) where the member supplies their tax file number within 30 days of the contribution being made. For contributions that fail the fund capped non-concessional contribution test, the super fund does not need to reject or return the contribution (if it has not been returned already) where a valid tax deduction notice for the excess has been supplied within 30 days of the contribution being made.

Tip: Clients who are 63 or 64 should consider utilizing the full three year non-concessional contribution cap before turning 65 if they are unsure about future work prospects.

TAX TREATMENT OF CONTRIBUTIONS

- *Employer deductions:* Tax deductibility will no longer be subject to age-based limits. Employers will qualify for a full tax deduction for all contributions (including salary sacrifice) made to complying super funds on behalf of their employees. Conditions will still apply though, such as the requirement that the employee be engaged in producing assessable income of the employer or an Australian resident engaged in the employer's business.
- *Self-employed (unsupported member) deductions:* Subject to a number of conditions, self-employed individuals will be able to claim a full tax deduction for contributions made to a complying super fund up to the age of 75. This will also apply to other eligible individuals including those who are not employed. Formerly, self-employed individuals could only claim the first \$5,000 and 75% of further contributions up to their age-based limit as a tax deduction.
- *Taxation of contributions:* Most assessable contributions made to a complying taxed superannuation fund, including all employer contributions, will be taxed at a concessional rate of 15%. This includes all employer contributions and contributions for which a deduction is claimed.

Contributions in excess of the non-concessional contribution cap will be taxed at 46.5%, representing the highest marginal tax rate plus the Medicare levy. This tax liability is imposed on the client, who must withdraw an amount from their



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ABOUT THE RACDS

The College provides an opportunity for new graduates and experienced dentists to improve their skills, knowledge and understanding.

Participation in College programs is suited to all career paths in Dentistry including private practice, government health service, academia, armed service and university postgraduate study.

Recognition of the College is widening as closer links and alliances are developed with agencies and institutions within Australia, New Zealand, Asia, the U.K. and the Middle East.

GENERAL STREAM FELLOWSHIP

The FRACDS General Stream comprises a Primary and a Final Examination.

The Primary program has 6 areas of study and examination including areas of anatomy, biochemistry, histology, microbiology, pathology and physiology. The aim of the program is to enable candidates to demonstrate an understanding of fundamental principles and their relationship to clinical practice.

The Final Examination is clinically oriented and requires demonstration of broad experience in the general practice of Dentistry, maturity of clinical judgment, familiarity with the current literature, and clinical application of knowledge.

SPECIAL FIELD STREAM

The Special Field Stream provides a pathway to Fellowship in the specialist fields of Endodontics, Oral and Maxillofacial Surgery, Oral Medicine, Orthodontics, Paediatric Dentistry, Periodontics, Prosthodontics and Special Needs Dentistry.

The College training program in Oral and Maxillofacial Surgery is accredited by the Australian Medical and Dental Councils.

MRACDS

This new College program leads to the award of MRACDS. It is a two year structured educational learning program for qualified General Dental Practitioners which is based on the successful completion of appropriate CPD courses and related RACDS assessment components.

In 2007 this program is being piloted in Victoria.

LOCATION OF ACTIVITIES

It is possible to sit written paper components of some examinations at a number of centres including Hong Kong, Perth, Sydney, Melbourne, Brisbane and Auckland, although usually our clinical examinations are held in Sydney.

The next College Convocation will be held in 2008 in Hong Kong.

CURRENT TIMETABLE FOR CANDIDATES

January
Final Examination

May
Registrations close for Primary Examination Orientation Course
Registrations close for Final Exam Workshop
Applications close for Assessment of Eligibility for Examination in a Special Field

June
Workshop for Final Examination
Registrations close for Special Field Examinations

July
Orientation Course for Primary Examination
Registrations close for Web based program

August/September
Web based education program Part I
Special Field Examinations

September
Registrations close for Primary Examination

October
Web based education program Part II
Registrations close for Final Examination

December
Primary Examination

**"If all of these rules
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superannuation account equal to their tax liability.

Contributions in excess to the concessional contribution cap will be taxed at 31.5% in addition to the 15% tax that complying super funds are liable to pay on assessable contributions.

- **No-TFN tax:** To enable the Government to control the contribution caps, an additional no-TFN tax will be applied to assessable contributions made to accounts where no tax file number has been quoted by the member. No-TFN contributions will be taxed at the highest marginal tax rate, i.e., 15% plus 31.5%. Complying super funds will not be required to apply the higher tax until 30 June each year, giving members time to quote their tax file number if they have not done so already.

Superannuation accounts that were opened prior to 1 July 2007 and have total assessable contributions of \$1,000 or less for an income year will not be subject to this additional tax.

CHANGES TO CONTRIBUTION SPLITTING

Any regulated superannuation fund that provides accumulation interests may offer a contribution splitting service on a voluntary basis. In general, a member may only split eligible contributions in the financial year following the year in which the contribution was made. The only exception to this rule is where a member is cashing out or rolling over the entire benefit.

In 2007/08 for contributions made in 2006/07 a member may split:

- Up to 85% of concessional contributions comprising of employer contributions (including salary sacrifice) and personal deductible contributions.

- Up to 100% of non-concessional contributions comprising of member contributions, Government co-contributions and spouse contributions made prior to 5 April 2007. Tax law currently provides that any non-concessional contributions split with a spouse from 1 July 2007 must be classified as a Taxable component in the spouse's fund. This would result in tax being payable on the split amount if received before age 60 or if paid to a non-tax dependant beneficiary on death.

In 2008/09 and future years for contributions made in the preceding financial year a member may split the lesser of:

- 85% of the concessional contributions for the financial year comprising of employer contributions (including salary sacrifice) and personal deductible contributions, and
- The concessional contribution cap for that financial year.

Non-concessional contributions of any type cannot be split.

If all of these new rules seem a little too complex it might pay to seek advice on professional fee for service basis.

In part two next month I will look at access to benefits, including rules relating to the taxation of benefits.

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