Newsletter

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MEDICAL & DENTAL ACCOUNTING

THE HEALTH WEALTH SPECIALISTS

CHARTERED ACCOUNTANT

Contributions to Superannuation for 30 June 2011 and other tax planning tips

As you are aware, deductible superannuation contributions were halved for the year ended 30 June 2010 and the same applies for 30 June 2011 ie. $25,000 for those under 50 and $50,000 for those 50 and over. Note that this is the second last year that $50,000 applies for those who are 50 or over ie. 30 June 2011 and then 30 June 2012 unless you have less than $500,000 in your member balances whereby the Commissioner has been kind enough to allow you to continue to contribute $50,000 (until your balance reaches $500,000 one would assume).

<u>Note contributions must be made before 30 June 2011 in order to receive a tax deduction for 30 June 2011.</u>

Again, it is worth revisiting the rules in relation to contributions to make it clear how much can be contributed.

<u>Concessionally taxed contributions</u>
These are usually referred to as deductible contributions or taxable contributions made to superannuation funds. The superannuation fund pays 15% tax on these contributions. These are usually employer contributions made on your behalf or personal member contributions (where tax deductible).

For the year ended 30 June 2011, there is a superannuation contributions cap of $25,000 per year from all sources. Practitioners receiving income from various sources should note that this $25,000 cap applies in total, not per employer.

There is also a transitional arrangement in place until 30 June 2012. The cap is $50,000 per year for people aged 50 or over on the last day of the financial year during this transitional period. For example, say a person turns 50 on 1 May 2011. Then, for the financial years ended 30 June 2011 and 2012 the cap of $50,000 applies. And if you are 50 or over and your balance is less than $500,000 you may keep contributing $50,000 per annum until presumably this balance is reached.

Any contributions in excess of $25,000 (or the transitional $50,000 if applicable) are subject to excess concessional contributions tax of 31.5% (bringing total tax on the contributions to 46.5%).

So please ensure that your concessionally taxed contributions (deductible contributions) do not exceed the relevant cap. It will be of no consequence to employers as they will receive a deduction for contributions, regardless of whether contributions exceed the cap or not. The onus is on the employee. If you are going to be taxed at 46.5%, it's best this is outside the superannuation environment because once inside superannuation, you basically can't pull any money out until you are at least 55 but most tax effectively at 60.

<u>This is particularly pertinent to doctors who are specialists and may receive salary or wages from a number of public hospitals and (say) their private practice and also have life via super contributions or general practitioners who (say) work for a Division of General Practice plus their private practice. Pay offices must be notified accordingly so you don't get caught out!</u>

It should be noted that we have received many excess contribution statements for 30 June 2008 and 2009 where contributions have gone over the limit due to miscalculation. Unfortunately nothing can be done about this. There also seems to be a swag of excess contribution statements where an industry fund has classified contributions incorrectly resulting in excess contribution statements. It

45-47 ADDISON STREET (PO BOX 628) ELWOOD VIC 3182
Tel: 03 9531 6666 Fax: 03 9531 6550 Email: caroline@madabayside.com.au
www.mada.com.au

is very time consuming and challenging to reverse these incorrectly applied statements and in many instances we have not been successful due to lack of cooperation from the industry funds. Accordingly we urge clients who are putting in close to maximum contributions to set up a self managed superannuation fund as such errors will not occur.

Non-concessional contributions
These contributions were previously referred to as "undeducted contributions" or after tax contributions. The superannuation fund does not pay tax on these contributions.

A non-concessional contributions cap of $150,000 per year applies. However there is a cap of $450,000 per person for non-concessional contributions over a three year period (provided you are under 65 at the time you make the $450,000 contribution). For example you could make a non-concessional contribution of $200,000 in Year 1, $200,000 in Year 2 and then to a maximum of $50,000 in Year 3.

Warning: Any excess concessional contributions are included in the cap for non-concessional contributions. Should the non-concessional cap of $450,000 also be exceeded in a three year period, the amount of the excessive concessional contributions will be subject to additional tax at both 31.5% and 46.5%; i.e. the same amount will be effectively taxed twice and you essentially pay tax at 93% on these excess contributions.

Other tax planning tips

To assist in year end tax planning, we thought it prudent to compile a non exhaustive checklist of issues which may require your attention before 30 June 2011.

- Determine whether you can decrease the amount of income derived in the 2011 income tax year by deferring derivation of assessable income to the 2012 income year.

- Determine whether you can increase the amount of deductions in the 2011 income tax year by bringing forward deductions from a later income tax year e.g repairs, etc

- Prepay interest if cash flow permits (we do not recommend prepaying interest if you have to borrow to do so). Note once you prepay, you must prepay each year in order to get the interest deduction i.e. the first year you get a double deduction and every year after it is the regular deduction.

- Time the disposal of capital gains tax assets to defer the making of a capital gain till 30 June 2011. Note if you have sold a property and the deposit was paid and contract signed before 30 June 2011 even though settlement occurs after 30 June 2011, the capital gain will be crystallized in the year ended 30 June 2011

- Ensure superannuation contributions have been received by the complying superannuation fund by 30 June 2011 (whether in cash or in kind).

- Remember the Government co-contribution where if your assessable income is $31,920 or under and 10% or more consists of salary or wages income, if you put $1,000 undeducted into super before 30 June 2011, the Government will co contribute $1,000. (Note that this alas has been reduced as previously it was $1,500). This applies to those over or under 18. For example my daughter Jasmin who is 15 assists me in the office, photocopying, binding and collating and helps with my power point presentations in relation to various talks I give. I pay her commensurate with work performed, write a PAYG summary and deposit $1,000 into our self managed super fund (can be done into an industry fund if preferred). The government co contributes $1,000. The work can just be casual (re full time work for minors they have to be 14 years and 9 months).

Wishing you all the best for a successful and healthy financial 2011/12!

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The contents of this article are general in nature and are not advice that applies to any particular client situation. Whilst every care has been taken in preparing the article, specific advice should be obtained before proceeding with any suggestion or recommendation made

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