

SuperFocus is our monthly employer update on changes within super and how they might impact your company and employees.



SuperFocus

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Legislative Instrument in place for terminally ill to access super

Last month we highlighted the Government's decision to remove the lump sum tax liability on super benefits paid to terminally ill individuals under the age of 60. As you're well aware by now, with the Better Super changes, anyone 60 and over can access their super tax free. However, the tax situation differs if you're under 55, with a maximum rate of 21.5% plus the Medicare Levy applying.

On 12 September 2007, the ATO issued a Legislative Instrument (LI) allowing for the scrapping of this tax for people who were terminally ill. The nil rate of withholding tax applies where there is certification by two medical practitioners (one being a specialist) that there is reasonable expectation of the member's death within 12 months.

The LI applies until 1 July 2008, by which time legislation should have passed through Government. For more information about the LI, visit www.comlaw.gov.au

New Ordinary Time Earnings calculation from 2008

As if there wasn't enough to get your head around with Better Super and the AML/CTF legislation, remember that new rules will apply next year for the calculation of your employees' super.

When working out the Superannuation Guarantee (SG) obligation for an employee, you generally multiply their Ordinary Time Earnings (OTE) by 9%. OTE simply refers to the amount of hours they usually work, excluding overtime. Among other things, OTE includes certain bonuses, above-award payments, shift and casual loadings, commissions and paid leave – all up to a maximum quarterly contributions base. For the 2007/08 financial year, the quarterly base amount is \$36,470.

However, for some employees, the OTE may not apply because their earnings base is stipulated under some other agreement like an industrial award, employer agreement or the fund's trust deed. If these earnings bases are valid, you can continue using them up until 30 June 2008.

However, from 1 July 2008, all employers must use OTE as the earnings base for calculating the SG. The aim of this change is to standardise and simplify the

super rules even further. For most of you, the new standard calculation won't make too much of a difference. However, for others there will be a significant impact under the new rules, due to the variations in working hours for your employees.

We'll be issuing a separate publication shortly on what the new OTE changes will mean for you and your employees.

Positive change to the SG Charge

As an employer, you're no doubt aware that Superannuation Guarantee Contributions (SGC) must be paid for your employees on a quarterly basis. This legislation was introduced to prevent individuals missing out on receiving their super entitlements and employers from sidetracking their obligations.

Employers who don't meet their quarterly SGCs on time must pay an "SG Charge" to the ATO. This consists of the amount of the late contribution – even if you've paid the contribution in the interim – plus interest and an administration fee. In effect, employers had to pay the contribution twice. However, on 2 October 2007, it was announced that the law would be changed to remove the double payment of the contribution. This means the SG Charge will now only consist of the interest on the contribution amount plus the administration fee. We'll let you know when the legislation has been passed.

New assets test boosts retirees' hip pockets

It's been just over a month since the new assets test for the Age Pension came into play. And according to the Association of Superannuation Funds of Australia (ASFA), the changes have led to more than 100,000 Australians receiving the Pension for the first time. In addition, about 170,000 existing recipients of the Age Pension are now receiving up to \$6,000 more.

With the halving of the taper rate from \$3.00 to \$1.50 per fortnight from 20 September 2007, the amount of assets retirees can now hold, while still qualifying for some of the Age Pension, is much higher (see table). In fact, a single homeowner can have as much as \$529,250 in assessable assets, while a couple can accumulate as much as \$839,500 and still receive some Age Pension payment.



Levels of retirement income for a couple who are homeowners

Level of Assets	Pre 20 September Age Pension Entitlement	Total Income Pre 20 September 2007	Post 20 September Age Pension Entitlement	Total Income Post 20 September 2007
\$100,000	\$22,952	\$29,952	\$22,952	\$29,952
\$200,000	\$21,268	\$35,268	\$21,268	\$35,268
\$300,000	\$16,439	\$37,439	\$19,615	\$40,615
\$400,000	\$8,639	\$36,639	\$16,343	\$44,343
\$500,000	\$839	\$35,839	\$12,443	\$47,443
\$600,000	0	\$42,000	\$8,543	\$50,543(a)
\$700,000	0	\$49,000	\$5,543	\$54,543(a)
\$800,000	0	\$56,000	\$743	\$56,743(a)

Source: Association of Superannuation Funds of Australia, September 2007.

As you can see, those with assets of \$400,000 or more are the real winners in terms of how much extra they receive, making it beneficial to accumulate as much as possible in super.

Retirement savings goes through the roof

Recently released figures from the Australian Bureau of Statistics (ABS) show an 8.4% increase (that's a whopping \$72 billion in cash terms) in retirement savings for the 2007 June quarter. According to ASFA, this is the largest quarterly increase ever, outstripping even ASFA's estimates.

This phenomenal growth in super assets was driven by several key factors:

- the Government's one-off doubling of the co-contribution payment, which amounted to \$1 billion going into member accounts;
- average super fund returns of about 3.5%, leading to total investment earnings for the quarter of around \$30 billion;
- a deferral of retirement by some wanting to receive their benefits tax-free after 1 July;
- at least an extra \$14 billion of large contributions invested into retail, self-managed and industry super funds ahead of 1 July, to take advantage of the once only \$1 million contribution opportunity; and
- retail investors contributing about \$8 billion (preliminary figures) into their super and an additional \$1 billion into retail retirement income products.

AML/CTF threshold transaction update

AUSTRAC, the regulator for the Anti-Money Laundering/Counter-Terrorism Financing legislation, has advised of a technical update to the rules.

From 12 December 2008, Reporting Entities must notify AUSTRAC of any threshold transactions exceeding \$10,000 that involve a designated service (see below). However, this will now only apply to super funds accepting receipts, cash payments and e-currency. Therefore, if your fund doesn't accept cash or pay member benefits in cash, you won't need to report to AUSTRAC.

Designated services for super funds include:

- cashing a benefit;
- accepting contributions, rollovers and transfers in;
- making pension payments; and
- accepting the purchase price of a pension.

29 October Quarterly SG Contributions due Superannuation Guarantee Contributions for the period 1 July 2007 – 30 September 2007 are to be made to the fund by this date. Employers failing to make the SG Contributions by this date must pay the Superannuation Guarantee Charge and lodge a *Superannuation Guarantee Charge Statement – Quarterly* with the Tax Office. The Superannuation Guarantee Charge is not tax deductible.

If you have any questions regarding the information in this bulletin, please contact your adviser:

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