

Treasurer 'green lights' radical super reform

The superannuation reforms proposed in the May Federal Budget flagged a radical shake up of Australia's superannuation system. Earlier this month the Treasurer moved the reforms a step closer to reality with the release of the Government's response to the consultation process on the proposed reforms.

As of 1 July 2007, the way superannuation is taxed and much of the complexity of the existing system will be removed. If you are within 10 years of retirement, these changes are likely to impact on the way you manage your super and the investment decisions you make.

The key components of the reforms from the Federal Budget announcement remain unchanged. However, earlier this month the Government introduced a series of transitional measures to assist the movement from one system to the other. Outlined below is a summary of the key components of the reforms, the transitional measures, and what it all means:

- From 1 July 2007, the tax currently imposed when you cash out your superannuation as a lump sum or pension will be removed for people aged 60 and over (where the superannuation benefit is from a taxed source).

As a result of this change there is an incentive to leave your money in superannuation and take it as a pension as you can continue to build your super in a tax free environment. If you take your superannuation out as a lump sum and invest it, you pay tax on any investment income earned. However, if your money is not taken out of super, any money remaining when you die is paid as a death benefit. If the benefit is paid to a spouse or dependant, the money is tax free. If the benefit is paid to a non-dependant, the money is taxed. If you intend your superannuation to be paid to a non-dependant, this is something you will need to keep in mind.

- The reasonable benefits and age based contribution limits will be removed from 1 July 2007. The reasonable benefits limit determines the amount of super you can claim a deduction for over your life time. The age based contribution limit determines the maximum tax deduction each year.

As the new rules remove the tax when you cash out your super, they limit the amount you can put into super. From 1 July 2007, you can make concessional taxed super contributions (taxed at 15%) of up to \$50,000 per year. Transitional rules apply to those aged 50 and over planning for retirement enabling them to make concessional contributions of up to \$100,000. If you receive contributions beyond these threshold levels (including employer and personal deductible contributions), the portion of the contribution above the threshold is taxed at the top marginal rate.

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Where contributions are not deductible, you can make contributions of up to \$150,000 per year (averaged across 3 years – a total of \$450,000 across a 3 year period) and indexed at \$5,000 per year.

For those under the age of 65, from 1 July 2007 you will be able to bring forward two years of contributions, enabling \$450,000 to be contributed in one year, with no further contributions in the next two years.

Transitional rules exist allowing those that pass the work test to make up to \$1 million of post-tax contributions between 10 May 2006 and 30 June 2007. The work test applies to those 65 and over who want to make a superannuation contribution. The work test requires that you work a minimum of 40 hours in a 30 day continuous period. Once you have passed the test, you can make contributions for the rest of the financial year.

In addition to this annual cap, you can contribute:

- a lifetime limit of \$1 million from the sale of small business assets which have been held by you for 15 years; and
 - settlements for injuries resulting in permanent disablement.
- There will be greater flexibility as to when and how you take your superannuation.

Currently, subject to the work test, you are forced to take your super at age 65 if you are not working and age 75 if you are working. From 10 May this year, once you reach your preservation age or age 65, you decide when to take your super; giving you the option of leaving your super in

place if you choose to. Your employer can keep making deductible contributions to your fund until age 75 (although you are only eligible for the super guarantee until age 70). From 1 July 2007, once you turn 65, you will be able to make \$150,000 of post tax contributions each financial year as long as you still meet the work test. Once you reach 75 however, you cannot make any further contributions.

From 1 July 2007, the rules determining how you take your superannuation will be streamlined. At present, lump sum payments and pensions are taxed differently. The new rules streamline the treatment of lump sum payments and pensions to remove this distinction.

- From 1 July 2007, the self-employed will be able to claim a full tax deduction for their super contributions. Currently, the self employed receive a full deduction for the first \$5,000 of super contributions and then 75 percent after this.

For any additional information about how the new rules work, contact us today or speak to your planner.

Clever business

Weight Watchers demonstrate how to use the tax system to your advantage.

Like any mature business, sometimes you need to think laterally to expand your market. This is exactly what Weight Watchers are doing with their successful application to the Australian Taxation Office for a Class Ruling to achieve fringe benefits tax free status for their *At Work* program.

A Class Ruling is a type of public ruling provided by the Commissioner of Taxation that gives certainty to the tax treatment of certain products or entities.

According to the ruling, Weight Watchers propose to make available an 'at work' program to assist employees improve the quality of their work performance. Under the structure, employers would enter into a contract with Weight Watchers for a weekly in-house program to be delivered to employees generally lasting 12 to 14 weeks. Among the topics covered by the *At Work* sessions are: coping with coffee breaks; surviving the lunch hour; fitting exercise into a busy schedule; maintaining motivation; and dealing with the effects of time pressure on eating habits. Employers then receive data on their employee's progress.

The Weight Watchers strategy is clever business as it appears to overcome a limitation to their existing mature market model; time. The existing model generally requires participants to come to Weight Watchers for meetings. For full time workers in particular, attending a meeting, even when they are motivated, is often difficult. However, just because the customer doesn't want to come to the meetings doesn't automatically mean that they are not interested in the product; it just means that the business model does not accommodate their needs.

Clever business *continued*

So what do you do when a portion of your potential customer won't come to you? Answer; you go to them.

In addition to the strategic benefits of the program, the Class Ruling removes a major impediment to Weight Watchers potential customers who are employers; FBT. If the employer aims to improve the health of their workforce with all of the associated benefits that come with that, then the *At Work* program fits the bill.

Weight Watchers achieved the FBT free status for this particular program because the Tax Commissioner considered the program to be the "provision of work-related counselling of the employee". Under the FBT rules, work related counselling is FBT free. Counselling for this purpose is defined as "the giving of advice or information in a seminar" related to matters such as safe work practices, stress management, fitness, drug and alcohol abuse or retirement problems.

While employers may have been able to achieve an exemption without the Class Ruling, the Class Ruling provides certainty for Weight Watchers and their customers.

If you would like further information on the Class Ruling system and when it is and sn't a viable action for your business to take, talk to us today.

**Always forgive
your enemies -
nothing annoys
them so much.**

Oscar Wilde