Maximise your superannuation & tax benefits

Strategies for 30 June 2010

…Like my old mate Kerry Packer used to say, "Pay your tax, but don't tip them. they're not doing that good a job.“…

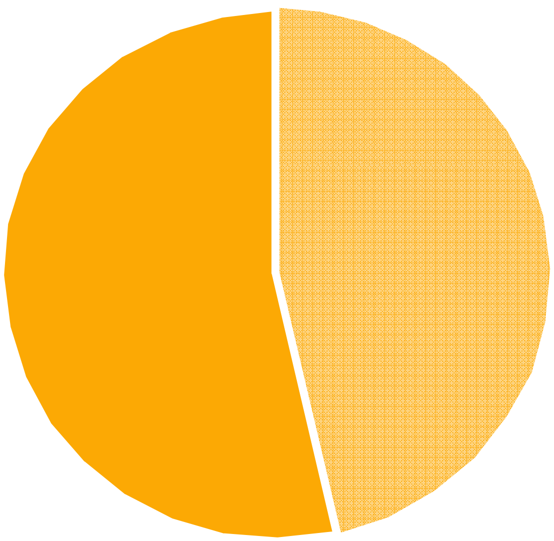
Paul Hogan

60 Minutes interview, July 2008

Key benefits of investing in super

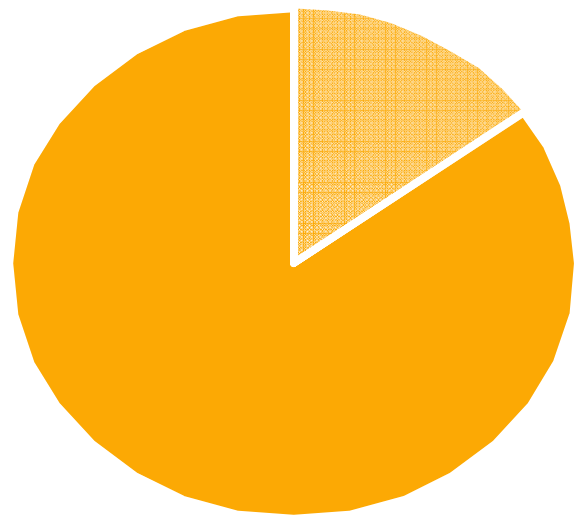
Pay less tax on investment earnings

Outside super



Up to 46.5%[1]

Inside super



0% to max 15%

1 Includes a Medicare levy of 1.5%.

Agenda

- ✓**Government co-contributions**
- ✓Spouse super contributions
- ✓Super contributions splitting
- ✓Pre-paid interest
- ✓Personal super contributions (concessional contributions)
- ✓Salary sacrifice
- ✓Pre-retirement pension
- ✓ Insurance in super

Receive a government co-contribution

Up to $1,000 extra in your super

The strategy

Make non-concessional contributions and qualify for additional contribution directly from the Government.

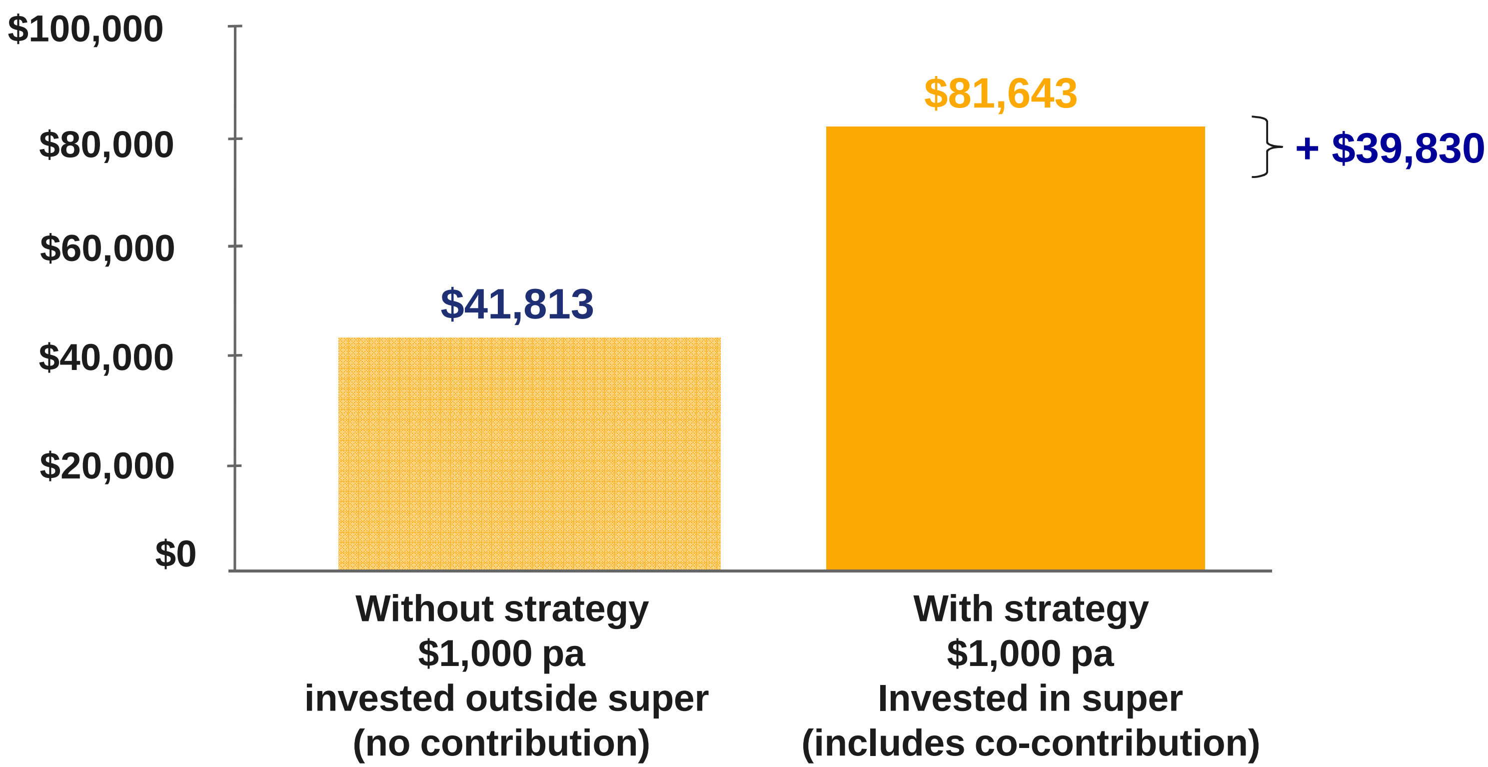
Receive the government co-contribution

An example

- Ryan is aged 40, he
  - earns $38,000 per year
  - decides to contribute $1,000 after tax to super
  - works to age 60
  - his wages only increase in line with inflation

Lets look at the outcomes…

The benefits of co-contribution over 20 years



Assumptions A 20 year comparison based on an after tax investment of $1,000 paTotal pre-tax return of 8% pa (split 3.5% income and 4.5% growth). Investment income is franked at 30%. All values are after income tax (at 15% in super and 31.5% outside super) and CGT (including discounting).

Note: Ryan pays no lump sum tax on his super benefits in 20 years as he will be aged 60.

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Spouse super contributions

Reduce your tax by up to $540

The strategy

Receive a tax rebate of up to $540 by making a contribution of up to $3,000 to your spouse's super fund if their income* is less than $13,800.

- Assessable income + reportable fringe benefits + reportable employer super contributions

Spouse super contributions

An example

- Mr Smith contributes an amount of $3,000 as an eligible spouse contribution for Mrs Smith.
- Mrs Smith's assessable income in the year the contribution is made is $12,000. The maximum rebatable contribution is:
  - $3,000 - ($12,000 - $10,800) = $1,800
  - The rebate Mr Smith can claim is 18% x $1,800 = $324
- Mr Smith need only contribute $1,800 to receive this rebate

Agenda

- ✓Government co-contributions
- ✓Spouse super contributions
- ✓**Super contributions splitting**
- ✓Pre-paid interest
- ✓Personal super contributions (concessional contributions)
- ✓Salary sacrifice
- ✓Pre-retirement pension

Spouse super contribution splitting – access your super earlier with lower tax

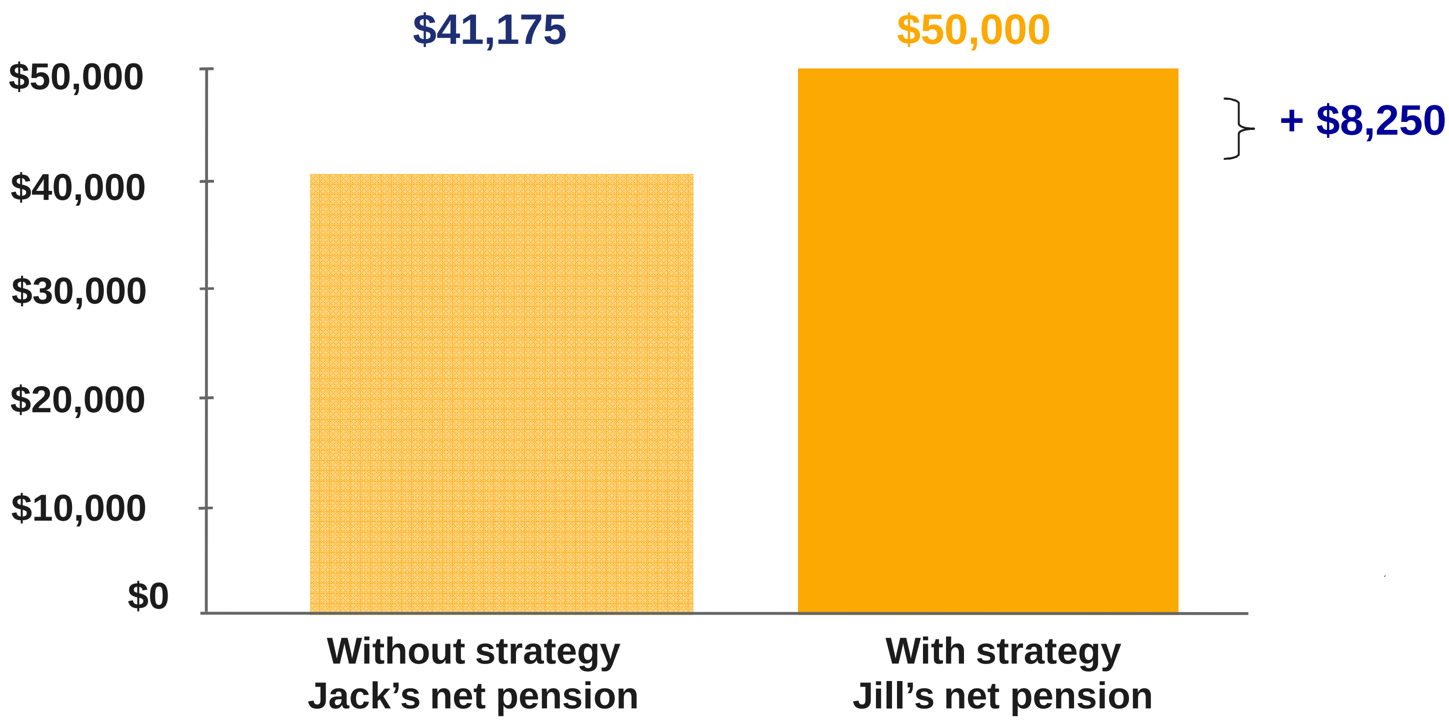
The strategy

Split certain superannuation contributions into your spouse's superannuation account

Spouse super contributions
An example

- Jill is 55 and Jack is 50
- Jack splits his taxable contribution to Jill
- Jack's taxable contributions are $50,000 pa for 2 years and then $25,000 for 3 years
- 85% of these amounts are transferred to Jill annually
- At 60 Jill will have an extra $183,000 in her super account
- She will commence a pension at 60 – $10,000 pa

Results (over 5 years from retirement)



Assumptions: Jack's marginal tax rate is 31.5%, pension commenced only with amount that would arise from split contributions. Jill is age 60. The same pension amount is received each year for 5 years until Jack is age 60.

Agenda

- ✓Government co-contributions
- ✓Spouse super contributions
- ✓Super contributions splitting
- ✓**Pre-paid interest**
- ✓Personal super contributions (concessional contributions)
- ✓Salary sacrifice
- ✓Pre-retirement pension
- ✓Insurance in super

Pre-paid interest – reduce your tax

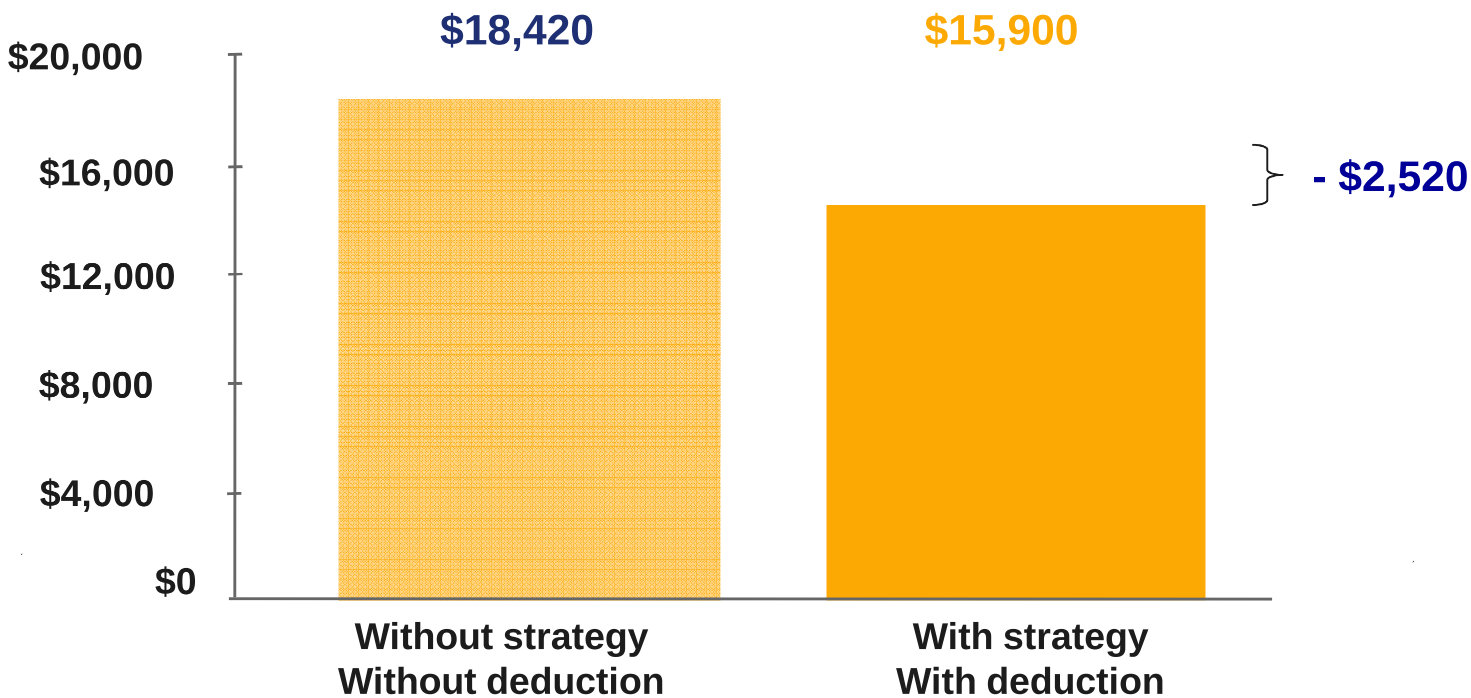
The strategy

Pre-pay the interest on your investment loan before 30 June for the next 12 months and you may be able to claim a tax deduction for that interest in your current year's income tax return

Pre-paid interest
An example

- Paul is about to invest in an investment portfolio which will generate him $13,000 income next year.
- He will borrow $100,000 loan to fund part of his investment portfolio.
- The loan interest is payable at 8 per cent pa

Result (personal tax payable in 2009/10)



Assumptions: Paul pays 12 months interest before 30 June. Marginal tax rate 31.5%. No investment income received in that year

Agenda

- ✓Government co-contributions
- ✓Spouse super contributions
- ✓Super contributions splitting
- ✓Pre-paid interest
- ✓**Personal super contributions (concessional contributions)**
- ✓Salary sacrifice
- ✓Pre-retirement pension
- ✓Insurance in super

Personal concessional contribution – increase your retirement savings and reduce your tax

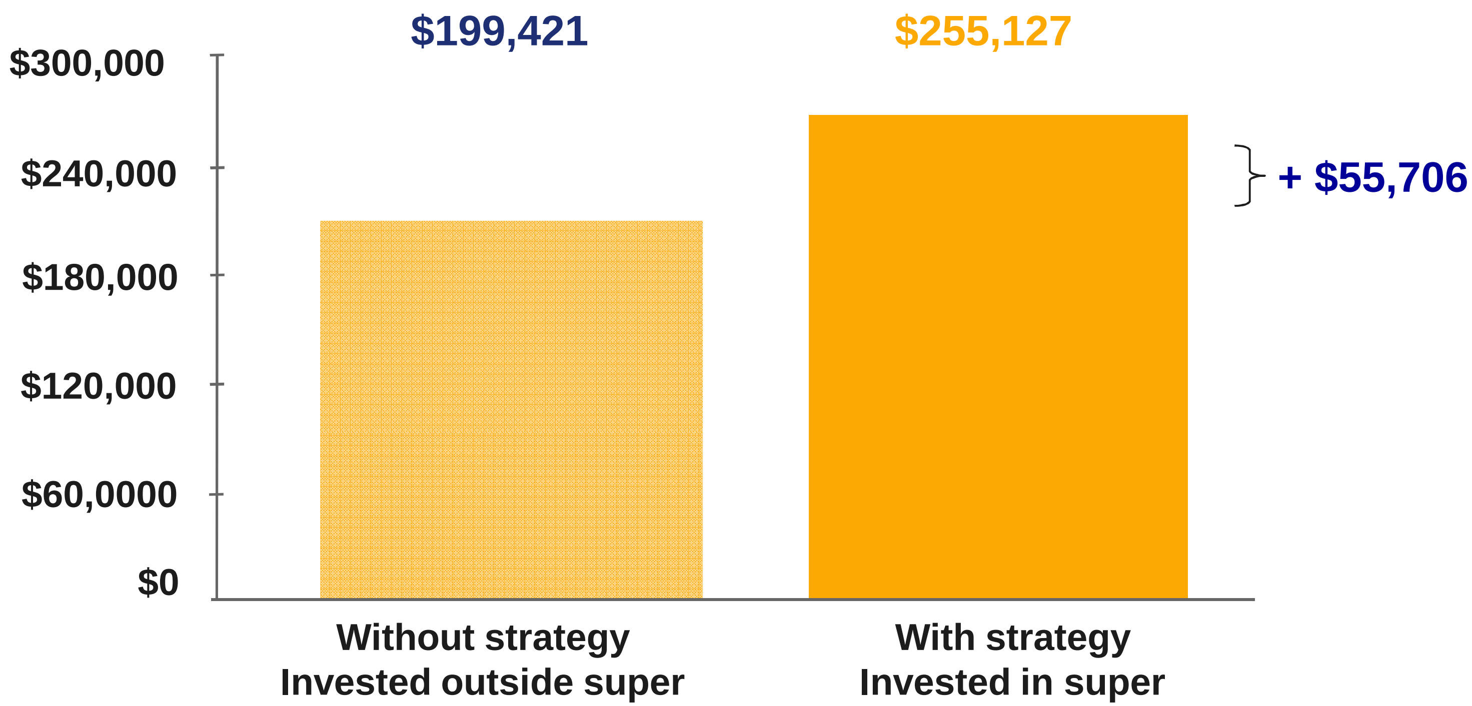
The strategy

Make a personal concessional contribution to super and claim a tax deduction

Personal concessional contributions an example

- Lisa is 42 years of age and self employed
  - taxable income of $90,000
  - share portfolio worth $50,000
  - has an unrealised net capital gain of $10,000
  - contributes the share portfolio to her super fund

Results (after 20 years)



Assumptions: A 20 year comparison based on total pre-tax return of 8% pa (split 3.5% income and 4.5% growth). Investment income is franked at 75%. All values are after income tax (at 15% in super and 39.5% outside super) and CGT (including discounting).

Note: no lump sum tax is payable on the super investment as Kate will be 63 at the end of the investment period.

Agenda

- ✓Government co-contributions
- ✓Spouse super contributions
- ✓Super contributions splitting
- ✓Pre-paid interest
- ✓Personal super contributions (concessional contributions)
- ✓**Salary sacrifice**
- ✓Pre-retirement pension
- ✓Insurance in super

Salary sacrifice to superannuation- increase your retirement savings and reduce your tax

The strategy

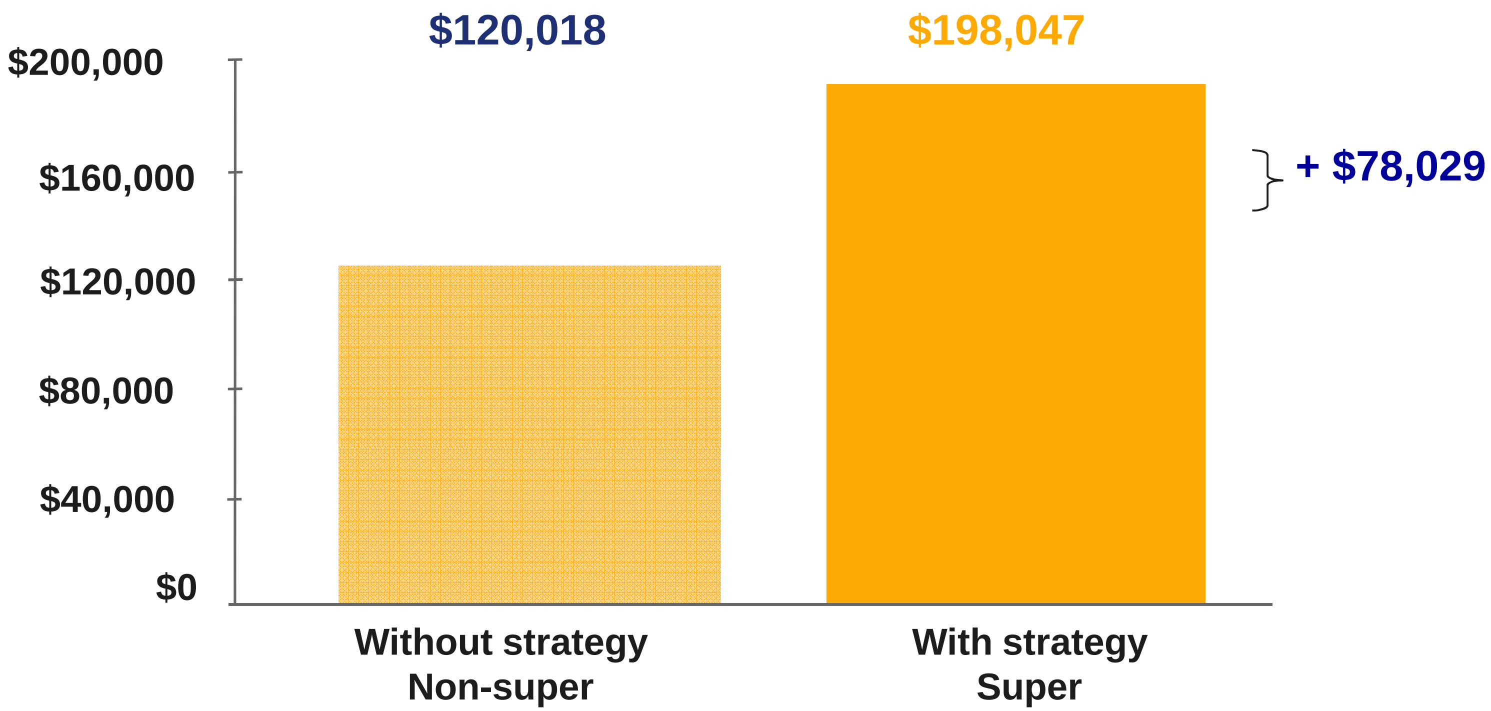
Salary sacrificing involves sacrificing part of your cash salary for the provision of other benefits.

Salary sacrifice to superannuation An example

- William (45) is currently employed on a salary of $80,000 and is about to receive a $5,000 pa salary increase. William is considering salary sacrificing an this additional $5,000 of salary to super.

- Lets look at the different outcomes if he invested the net of tax amount inside or outside super.

Results (after 20 years)



Assumptions:. A 20 year comparison based on $5,000 of pre-tax salary. Both the super and non-super investments earn a total pre-tax return of 8% pa (split 3.5% income and 4.5% growth). Investment income is franked at 30%. All values are after income tax (at 15% in super and 39.5% outside super) and CGT (including discounting).

Note: no lump sum tax is payable on the super investment as William will be 65 at the end of the investment period.

Agenda

- ✓Government co-contributions
- ✓Spouse super contributions
- ✓Super contributions splitting
- ✓Pre-paid interest
- ✓Personal super contributions (concessional contributions)
- ✓Salary sacrifice
- ✓**Transition to retirement (Pre-retirement pension)**
- ✓Insurance in super

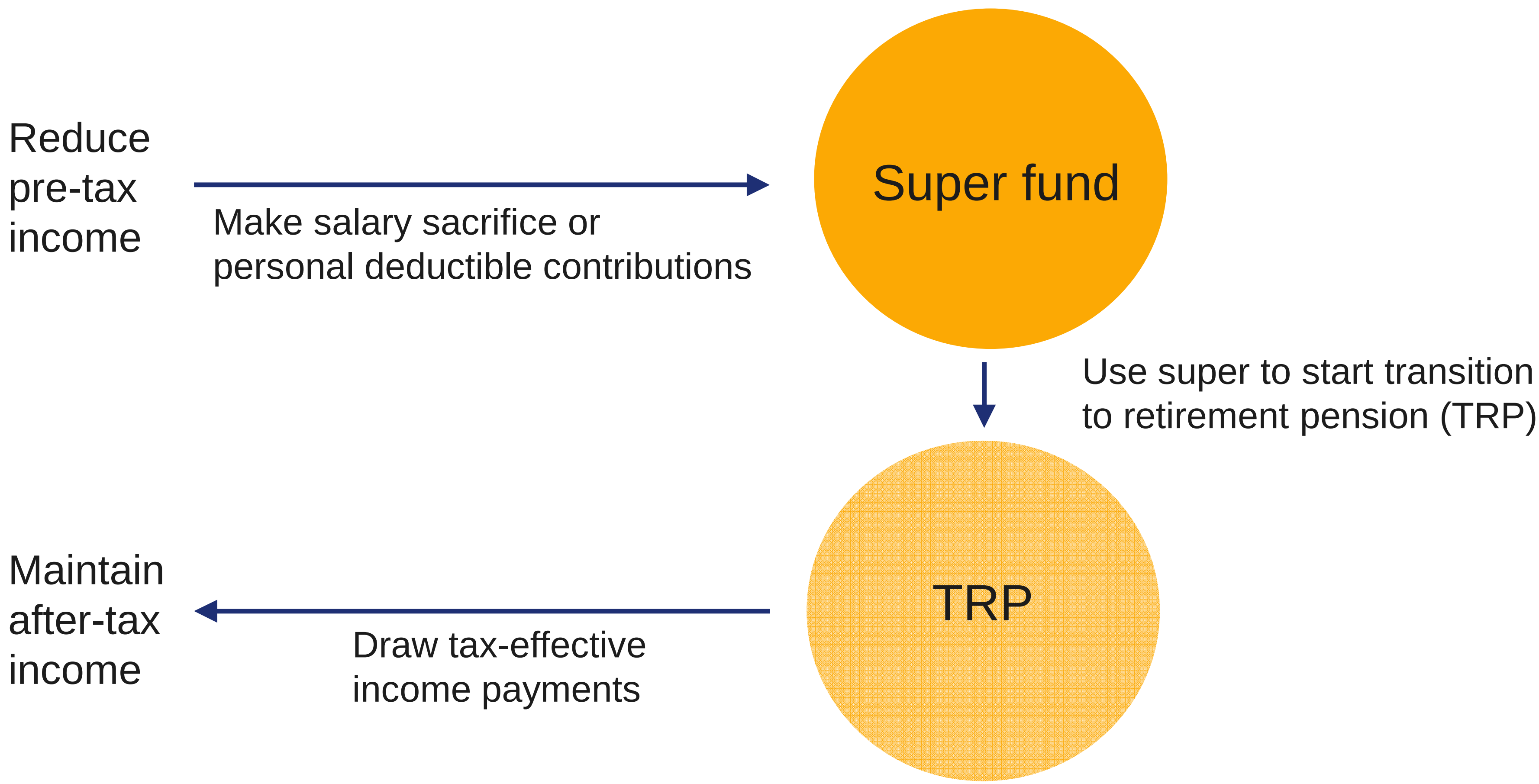
Transition to retirement pension – grow your super

The strategy

If you are employed or self-employed and you’ve reached your preservation age you can access your superannuation through a pre-retirement pension (or “transition to retirement pension”).

At the same time you can salary sacrifice additional funds to superannuation.

How strategy works



Case study – transition to retirement

- Craig is 55 years of age
- Earns pre-tax salary of $90,000 + 9% SG contributions
- Has $300,000 in super
- Wants to retire in 10 years
- Would like to maintain his current lifestyle
- Invests entire super balance of $300,000 in TRP
- Elects to receive max. income from TRP, which is $30,000 in year one
- Sacrifices $37,438 into his super fund

Craig's income and tax position

In year one	Before strategy	After strategy
Pre-tax salary	**$90,000**	**$52,562**
Plus TRP income	**Nil**	**$30,000**
Less tax payable[1]	**($23,000)**	**($15,562)**
After-tax income	$67,000	$67,000

1 Includes the Medicare levy.

Impact on Craig's savings (year 1)

- He invests more in super than he withdraws from TRP

Retirement savings

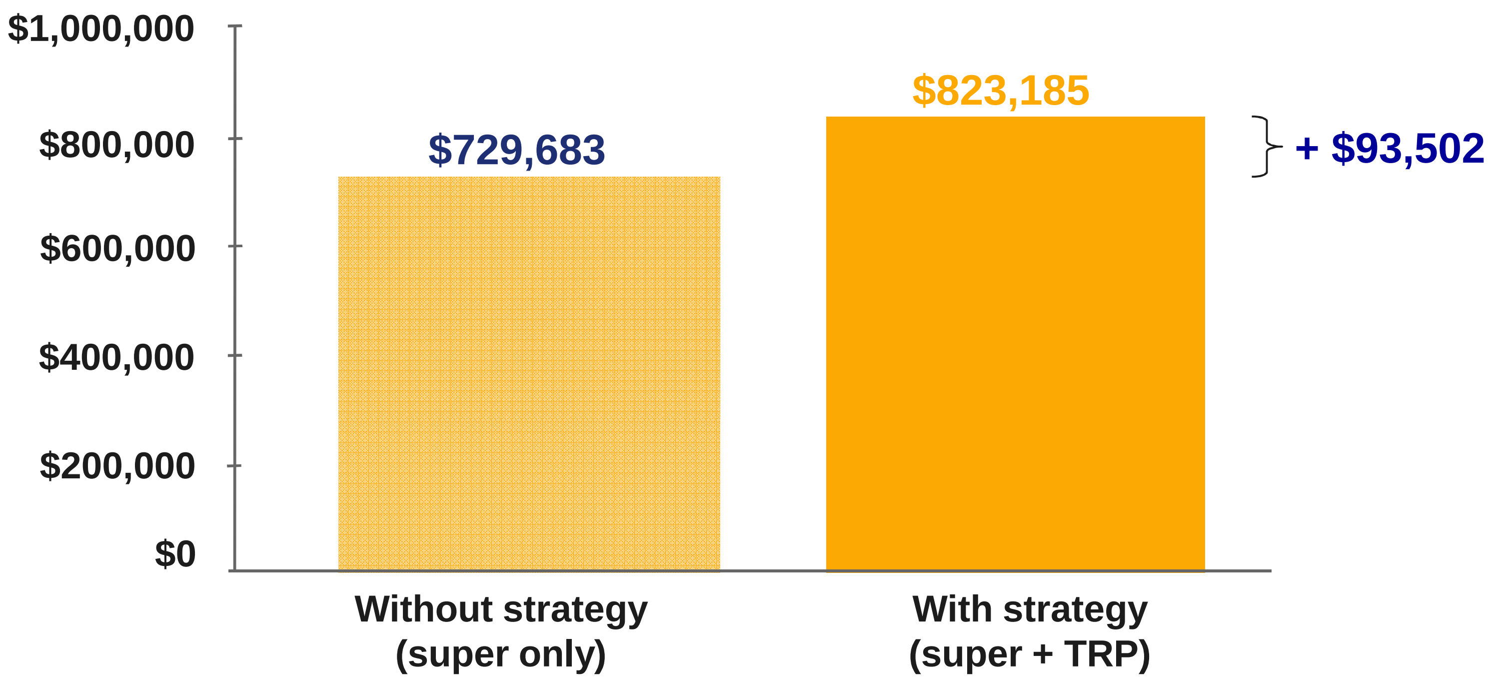
+ $1,822

Salary sacrifice	$37,438
Less 15% tax	<u>($5,616)</u>
	$31,822

Pension income
$30,000

- Also, no tax on earnings in TRP vs 15% tax in super

Results (after 10 years)



Assumptions: Craig's super balance of $300,000 consists entirely of the taxable component. He continues to receive 9% SG contributions based on his package of $90,000 pa, even after he makes salary sacrifice super contributions. He commenced the strategy on 1 July 2009. Both the super and TRP investment earn a total pre-tax return of 8% pa (split 3.5% income and 4.5% growth). Investment income is franked at 30%. Salary doesn't change over the 10 year period. From age 60, Craig's adviser recommends he commute and repurchase the TRP each year and invest any surplus income in super as a non-concessional contribution. All values are after CGT (including discounting).

Agenda

- ✓Government co-contributions
- ✓Spouse super contributions
- ✓Super contributions splitting
- ✓Pre-paid interest
- ✓Personal super contributions (concessional contributions)
- ✓Salary sacrifice
- ✓Transition to retirement (Pre-retirement pension)
- ✓**Insurance in super**

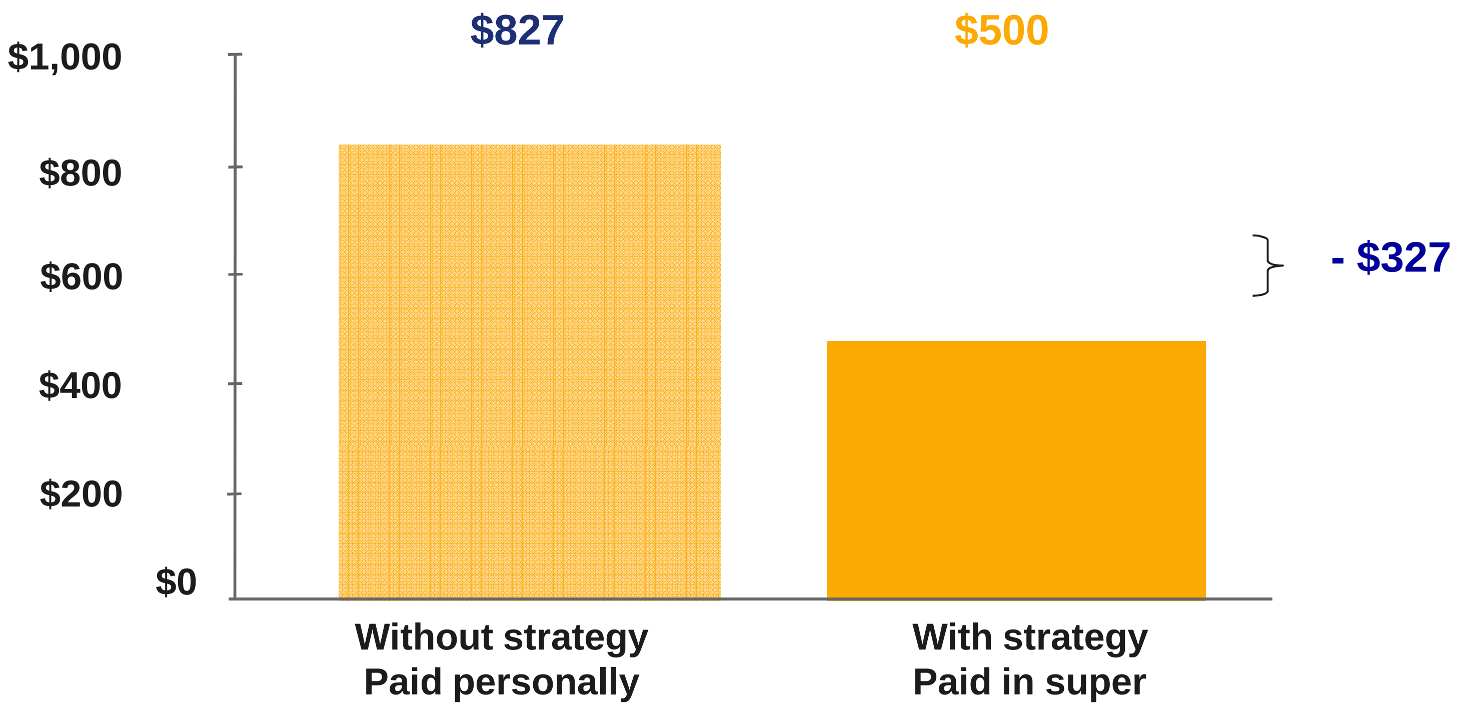
Insurance in super – reduce the cost of your insurance

- Hold life and TPD insurance in super
- Fund the cost through either salary sacrifice or personal deductible contributions
- Premiums are effectively paid from pre-tax income in super and post tax outside
- Your fund may be able to still pay the premiums if you have cash flow problems

Case study – insurance in super

- Jack is 45 and earns $90,000 pa
- $700,000 of insurance has been recommended
- The annual premium is $827
- His employer allows salary sacrifice and his super fund will hold the insurance

Results (net of tax cost of insurance)



Assumptions: Marginal tax rate 39.5%. Super fund can claim deduction for premiums which are funded via a pre-tax contribution (salary sacrifice). Premium based on MLC Limited standard rates for a an age 45 non-smoker as at January 1 2010

Please sir … can I have some more?

Annual Income		%
Less than	$12,950	39.0
$12,951 -	$20,750	26.2
$20,751 -	$51,950	18.3
$51,951 -	$67,550	2.1
$67,551 -	$83,150	1.0
More than	$83,150	2.0

65.2%

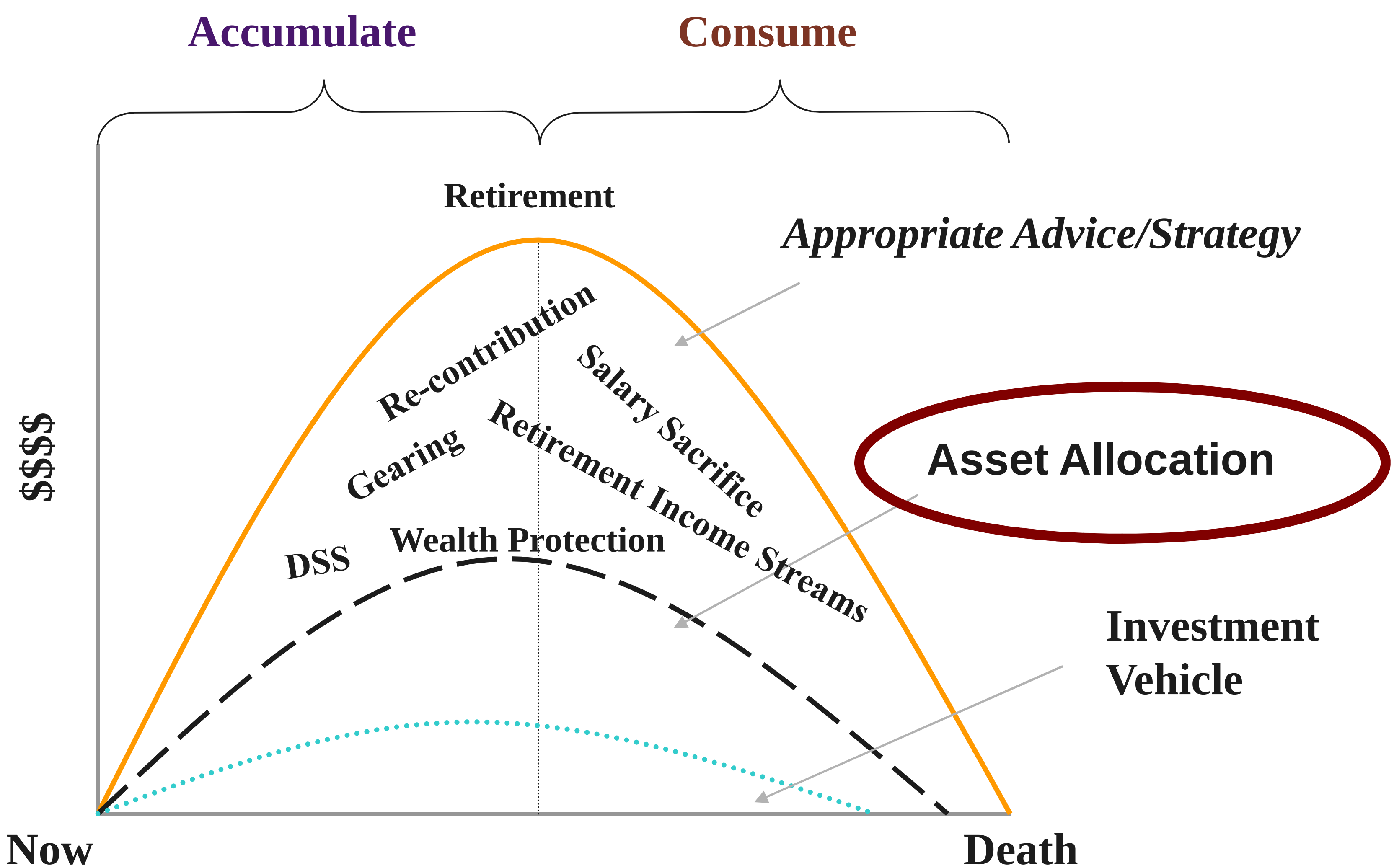
83.5%

5%

Source: ABS Census Data 2006

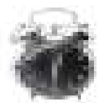
Note: 11.5% of those aged over 65 declined to list any income.

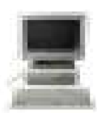
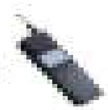
Investment value - Where does it come from?



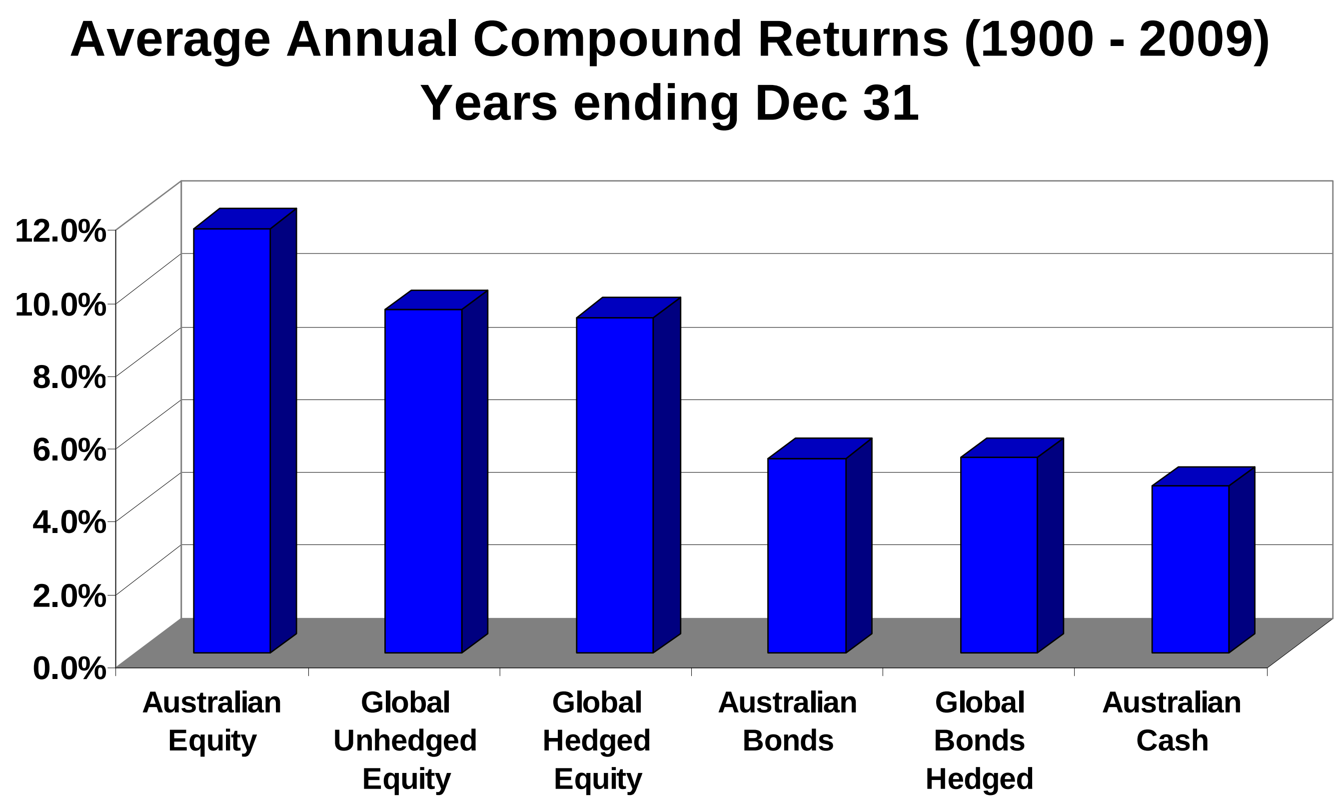
Equities are investments in real companies

How was your day?

You were woken up by a Sony clock radio  (Japan). You made yourself a Lipton tea  (UK) and ate a bowl of Kellogg's Corn Flakes  (US). Maybe spooned on some Nestlé yoghurt  (Switzerland). Even the Vegemite on your toast  was made by an American company!

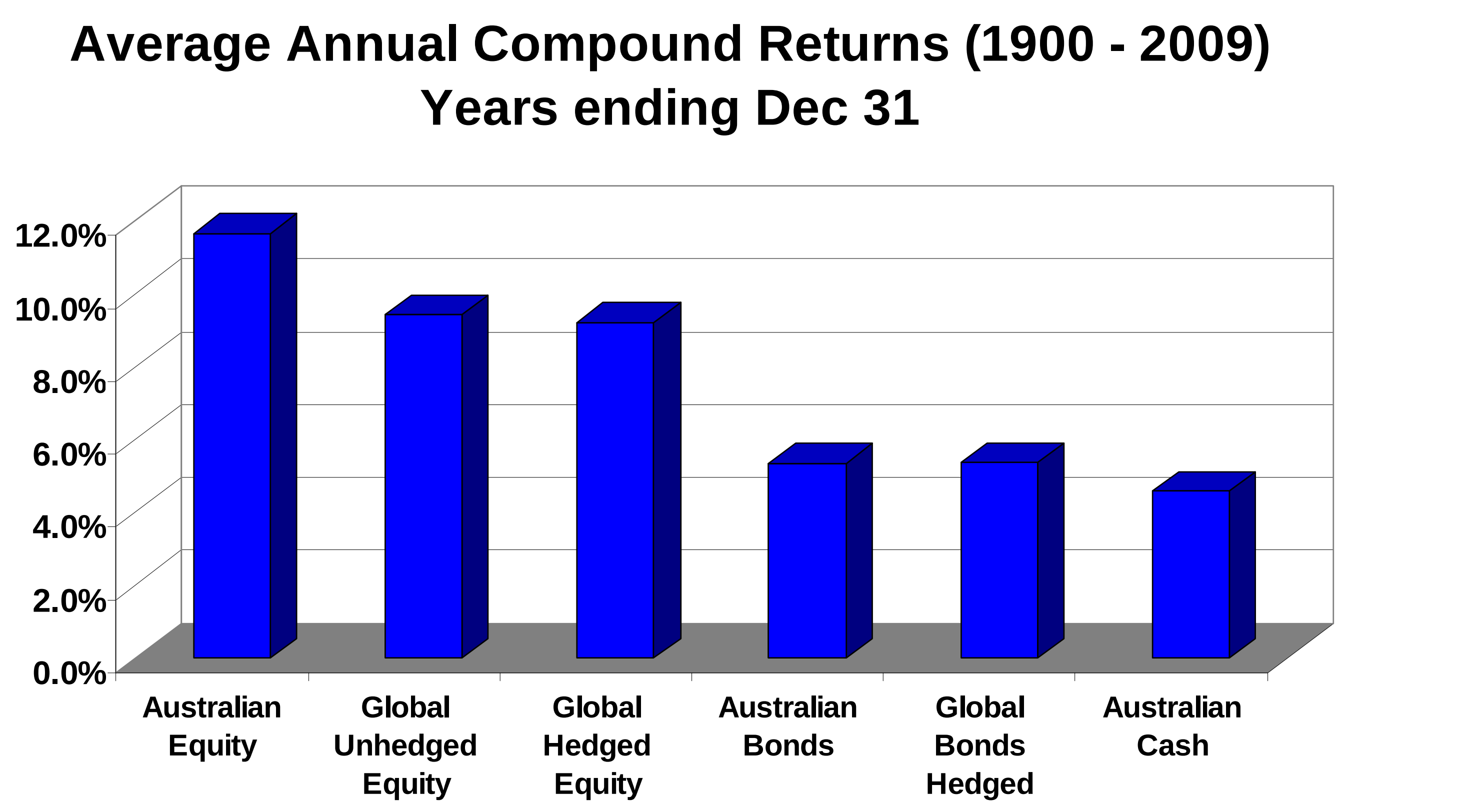
You drove a Nissan car  (Japan) to work, and put in a long day on your Hewlett Packard computer  (US). On the way home, you called some friends and ordered takeaway on your Nokia mobile phone  (Finland), before finally putting your feet up with a well-deserved Heineken  (Netherlands).

Average Annual Compound Returns (1900 – Dec 2009)



Source: Calculated by MLCIM using data presented in DMS Data Module offered through the Morningstar software program EnCorr. Based on copyrighted books by Dimson, Marsh, and Staunton, Triumph of the Optimists, Princeton University Press, (c) 2002, and Global Investment Returns Yearbook 2003, ABN AMRO/London Business School (c) 2003. All rights reserved. Used with permission.

REAL Average Annual Compound Returns (1900 – Dec 2009)



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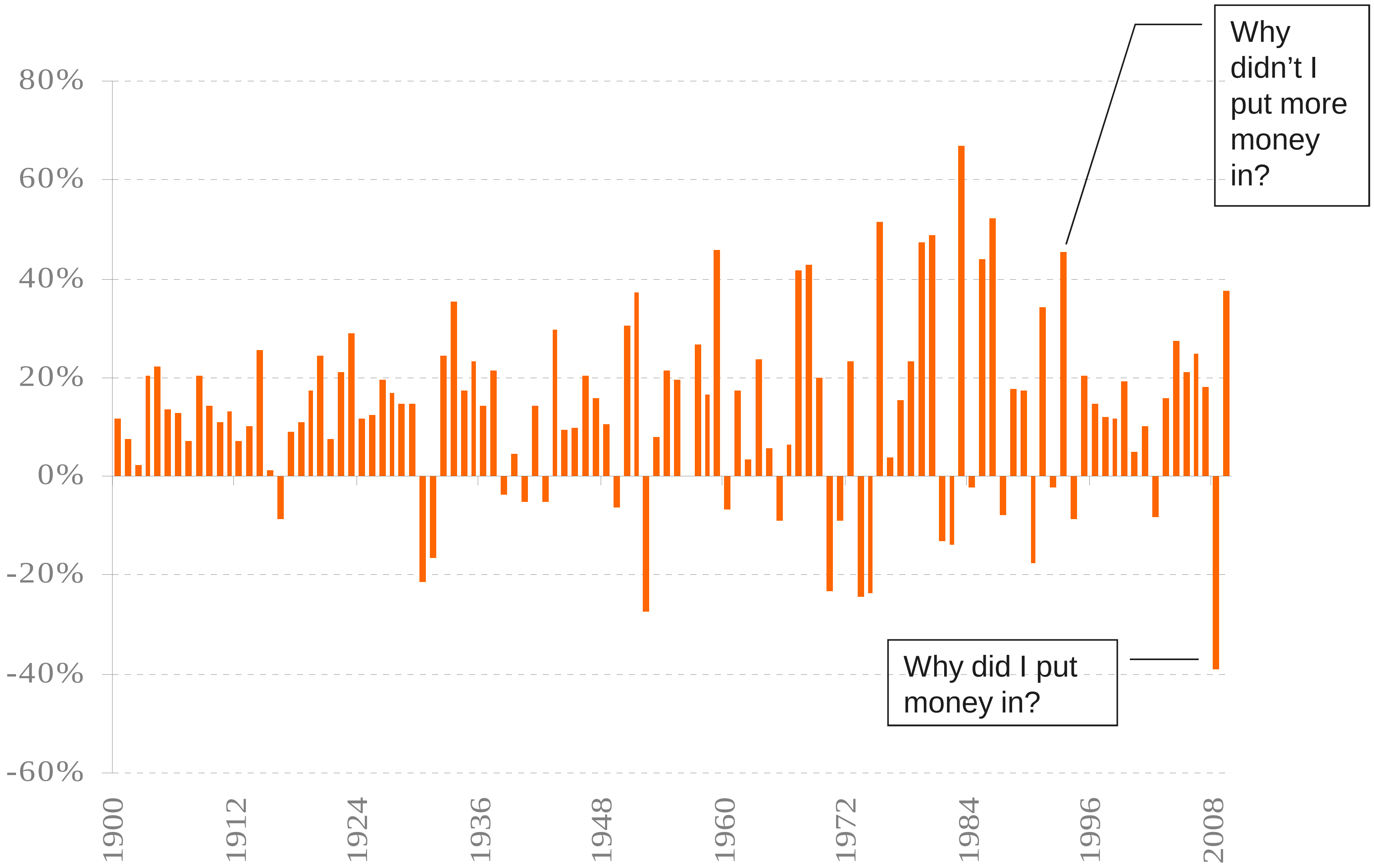
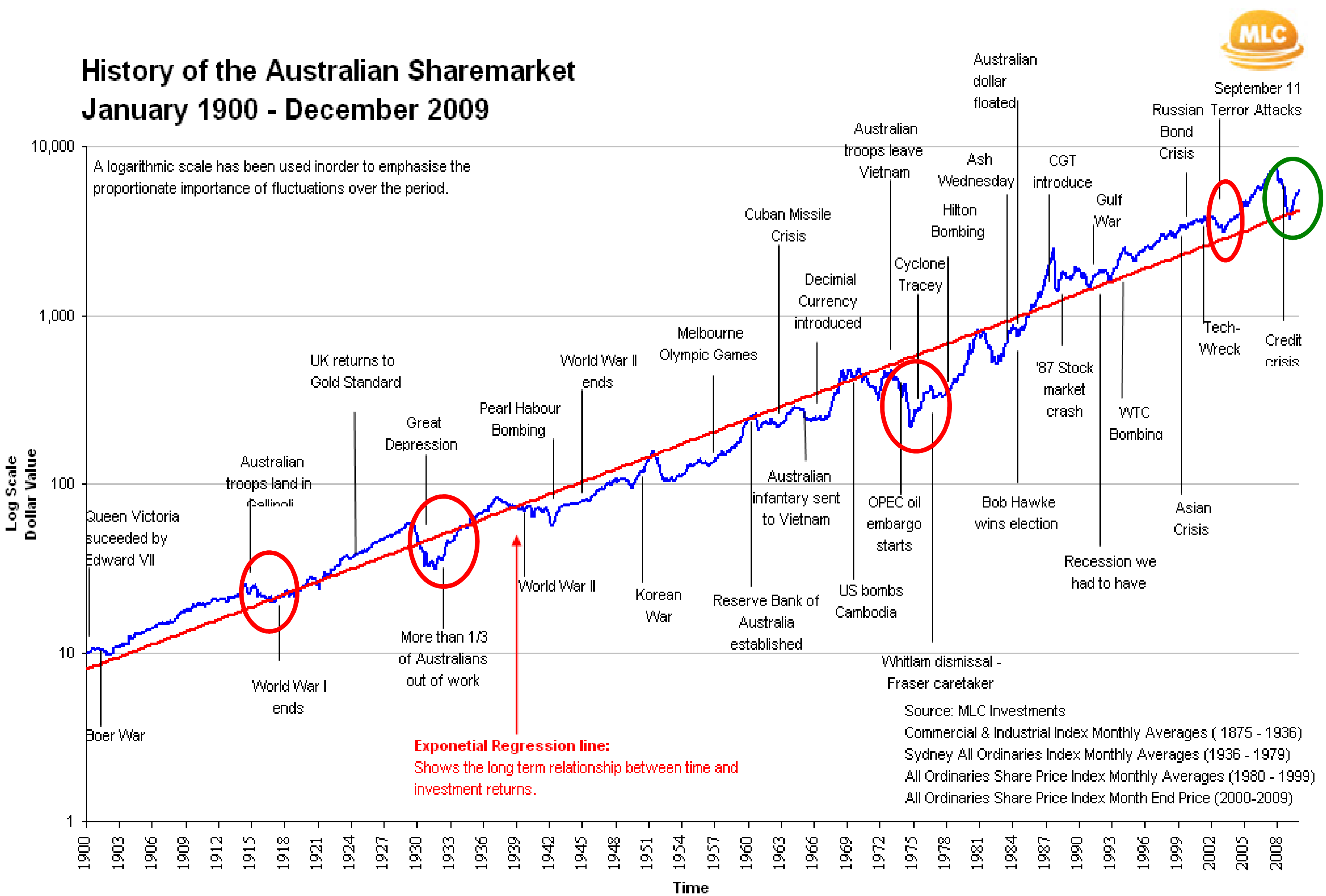
Annual returns (calendar year) of Australian shares
1900 - 2009




History of the Australian Sharemarket
January 1900 - December 2009
MLC
A logarithmic scale has been used inorder to emphasise the proportionate importance of fluctuations over the period.
Log Scale
Dollar Value
10,000
1,000
100
10
1
Time
Queen Victoria suceeded by Edward VII
Boer War
Australian troops land in Gallipoli
World War I ends
UK returns to Gold Standard
Great Depression
More than 1/3 of Australians out of work
Pearl Habour Bombing
World War II
World War II ends
Korean War
Melbourne Olympic Games
Reserve Bank of Australia established
Cuban Missile Crisis
Australian infantary sent to Vietnam
Decimial Currency introduced
US bombs Cambodia
Australian troops leave Vietnam
OPEC oil embargo starts
Cyclone Tracey
Whitlam dismissal - Fraser caretaker
Hilton Bombing
Ash Wednesday
Australian dollar floated
Bob Hawke wins election
CGT introduce
'87 Stock market crash
Gulf War
Recession we had to have
WTC Bombing
Russian Bond Crisis
Asian Crisis
Tech-Wreck
September 11 Terror Attacks
Credit crisis
Exponetial Regression line:
Shows the long term relationship between time and investment returns.
Source: MLC Investments
Commercial & Industrial Index Monthly Averages (1875 - 1936)
Sydney All Ordinaries Index Monthly Averages (1936 - 1979)
All Ordinaries Share Price Index Monthly Averages (1980 - 1999)
All Ordinaries Share Price Index Month End Price (2000-2009)
1900
1903
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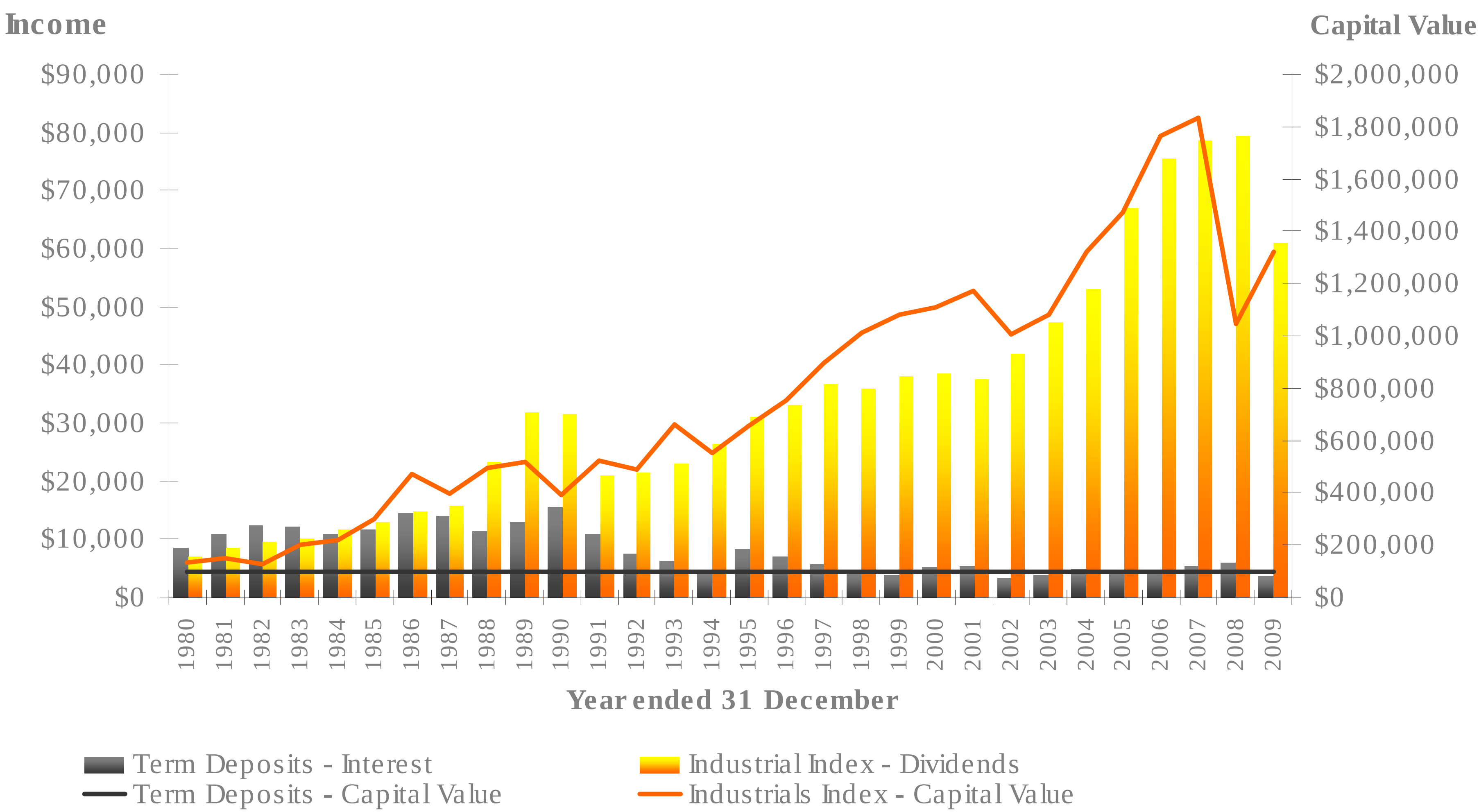
Income & Capital Return on Investment of $100,000 in December 1979



Refer to the appendix for notes on the data