



FINANCIAL PLANNING NEWS

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Superannuation News

What is the Super Co-contribution?

The co-contribution was introduced initially from 1 July 2003. The co-contribution is an initiative to assist eligible individuals to save for their retirement. From 1 July 2004, the maximum co-contribution amount was increased from \$1,000 to \$1,500. If you are eligible and make personal superannuation contributions, the Government will match your contribution with a co-contribution up to certain limits.

What are the changes?

In the 2005-06 Federal Budget, the Government announced additional amendments to the Super Co-contribution initiative. These changes allow more individuals to be eligible for the Super Co-contribution. Effective from 1 July 2007, these changes mean:

- If you are self employed and make personal superannuation contributions, you may receive a super co-contribution providing you satisfy the eligibility requirements
- You must quote your Tax File Number to your superannuation fund or RSA
- The lower threshold of \$28,000 will be indexed each year and
- The higher threshold will be the lower threshold plus \$30,000.

How does it work now?

If your total income (your assessable income + your reportable fringe benefits) is less than \$58,000 in a year of income, you make personal superannuation contributions and are otherwise eligible, the Government will make a co-contribution.

It means that if your total income for co-contribution purposes is \$28,000 or less in a year of income, the Government will now put in one dollar and fifty cents (\$1.50) for every dollar (\$1) you put into your superannuation account, up to a maximum co-contribution of \$1,500 a year.

Note: Your total income may be different to your taxable income

When your total income is more than \$28,000 but less than \$58,000 in a year of income, your co-contribution will be adjusted based on your total income and how much you personally contribute.

Example: if you are eligible and your total income is \$42,000 and you make personal superannuation contributions of \$1,000 during the relevant year; you will be entitled to a co-contribution of \$800.

Are you eligible for the Super Co-contribution?

The eligibility criteria for the co-contribution have now been widened to include more people. You will be eligible for the co-contribution in a year of income if:

- You make personal superannuation contributions to a complying superannuation fund or a retirement savings account (RSA)
- Your total income (assessable income plus reportable fringe benefits) is less than \$58,000 (This may be different to your taxable income)
- 10% or more of your total income is from eligible employment
- You do not hold an eligible temporary resident visa at any time during the year
- You lodge an income tax return for the year of income, and
- You are less than 71 years old at the end of the year of income.

Remember...work hard, work your money harder

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Case studies

Case study1: Total income - the base for Super Co-contribution payment

A 42-year-old married woman earns an annual salary of \$42,000. As a result of salary packaging a car, she also has reportable fringe benefits of \$8000, and has investments that return an annual dividend of about \$6,000.

She also makes personal contributions to her superannuation, above the nine per cent of salary her employer must pay.

Initially, she understood she was eligible for a significant co-contribution, given her salary of \$42,000, but the co-contribution is calculated on total income determined by the Tax Office.

In this case, total income is \$56,000, comprising salary, fringe benefits and return on investments. With tax deductions of, say, \$3,000, taxable income is \$45,000. However, the Tax Office calculates any co-contribution on total income.

In the case of this woman, with a total income of \$56,000 and personal superannuation contributions of \$1,000, the co-contribution payment is \$100 - which still represents an automatic 10 per cent return on investment in a matter of months.

Case study2: Other tax benefits for self-employed

A 45-year-old father of two owns his own painting business that pays him an annual income of \$50,000.

As a sole trader he receives no Superannuation Guarantee, but manages his own superannuation fund and makes personal contributions to this superannuation account.

In this instance, no co-contribution can be paid: amongst the eligibility criteria is a requirement that at least 10 per cent of a taxpayer's total income must be received as an employee.

This particular sole trader is entitled to a tax deduction for personal contributions made to his superannuation fund.

If your business is run through a company and the company pays your salary (which is at least 10% of your total income), and you meet the other eligibility rules, you could qualify to receive the co-contribution, but would not be eligible for a tax deduction for your personal superannuation contributions.

For more information regarding superannuation or planning your financial future, call **Paul Hewins** on **0417 143 175** or email your interest to **paul@portfoliomanagers.com.au** or call the Danber Financial Services office on **(03) 9794 8108**.