EUREKA report

Superannuation Q&A

By Andrew Quinn
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This week:

- How to add money to our DIY fund?
- Qualifying for the co-contribution.
- Can I claim for investment losses?
- Does the $450k rule still apply?
- Should super funds move in unison?

Adding to the DIY fund

My wife and I have a DIY fund, which has two allocated pensions from which income is withdrawn within the limits (less than 4%). We are both in our 60s and we want to credit more funds – after tax, from savings – into our allocated pensions. Is this allowed? Or do we have to start another allocated pension? What tax is involved in adding to the allowed allocated pensions from above? What are the maximum and minimum limits for additional contributions under these circumstances without tax implications?

You need to remember that superannuation funds generally provide two types of member accounts: one for paying pensions and one for receiving contributions.

Your two allocated pensions are being paid from pension accounts and you cannot add to them directly once a pension has been commenced. However, you can add money to an accumulation account – one designed to receive super contributions – and then stop your existing pension and start a new one with the combined amount.

While this process is reasonably straightforward, there are several rules and procedures that need to be followed to do it correctly.

The most obvious one is to ensure that you are eligible to make additional contributions. If you are both under age 65, this is unlikely to be a major hurdle. But if you are aged between 65 and 75, you will need to meet the work test requirements.

Additional non-concessional contributions will not be taxed going into the fund as long as they are below the relevant cap. You should consult an adviser before contributing to your fund because excess contributions tax may apply if you get the numbers wrong.

Your adviser should also be able to help you with the necessary letters and minutes to commute your existing pension, roll back to accumulation and commence a new pension.

The co-contribution

This financial year I worked 40 hours in July 2008 and my earnings for the month were $986. The company subsequently decided to close down and I then received $1212.40 for long service leave. My pension paid from my DIY superfund was $35,000. My question is should I contribute $1000 to the fund and hope to get the government co-contribution of $1500? I suspect the wages received does not make up to 10% of the amount that I received from all sources.

To be eligible to receive the government super co-contribution, you need to:

- Make an eligible personal super contribution.
- Have an assessable income plus reportable fringe benefits of less than $60,342.
- Earn 10% or more of your income from either carrying on a business and/or eligible employment.

- Be aged less than 71 years old at the end of the income year.
- Not be a temporary resident.
- Lodge an income tax return.

On that basis, you should be eligible for the super co-contribution if your assessable income only comprises your wages and the long service leave payment. Your pension income is non-assessable non-exempt income.

However, you will need to make sure that you have a PAYG payment summary to validate your employment during the year. You should also double-check that you have included all other income and reportable fringe benefits when calculating the 10% rule.

Claiming for losses

I have a DIY superfund. As part of a diversification strategy I placed a small amount in an industry super fund as an alternative to not being fully invested and consequently holding “too much cash”. I have also salary sacrificed into the industry super fund. The current value of the industry fund is less than the capital I have put in. If I either switch to cash or otherwise crystallise my loss by rolling it into my DIY fund, can I claim a capital loss, either for the DIY fund or my other personal investments outside super?

The short answer to your question is no. If your industry fund account balance has fallen since you opened the account and you roll the money over into your DIY fund or another superannuation account, you cannot claim the decrease in value as a capital loss.

If you can afford to ride out the current downturn, it may make more sense to keep your existing investment and wait for a recovery rather than selling down while asset values are depressed. You should seek professional advice before making any final decisions.

The $450k rule

Do the new super changes stop the current rule of $450,000 limit over a three-year period in this year?

No. For those aged under 65, the limit on non-concessional super contributions will remain at $150,000 per annum with the option to bring forward three years of contributions, ie, $450,000. Those aged between 65 and 75 will not be able to use the forwarding rule even if they satisfy the work test.

Pension plan

If you have a number of super funds and wish to begin a transition to retirement strategy between 55 and 60, the pension range is between 4–10% (though minimum has been reduced to 2% for the next financial year). Is it possible to begin this strategy just involving one super account, or does this strategy need to be applied across all accounts?

There is no requirement to take a pension from each of your superannuation accounts. Even if you had just one super account, you would not need to start a pension with the entire balance. When you commence a superannuation pension, the trustee of your fund will form a new account for you to hold the pension assets. Money from your existing super account(s) can then be transferred into this new account and you can draw the pension you require, subject to the minimum and maximum percentages specified in your letter.

However, there is one final point. Many public offer superannuation funds have their own rules regarding the administration of superannuation pensions. For example, some will require a minimum initial pension balance of $25,000 or $100,000 before they will allow you to start a transition to retirement income stream. You should clarify this with your fund before requesting any rollovers or transfers.

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