
Bestseller's plot reveals the best buys

Australian
Wednesday 14/11/2007
Page: 4
Section: Wealth
Region: National Circulation: 133,000
Type: National
Size: 185.38 sq.cms.
Published: MTWTF

WHAT TO DO

Q I am 63 years old and thinking of going overseas to stay with my relatives for a few years.

If I work overseas before retiring, can I still make contributions even though I will be a non-resident? And once I turn 65, will the allocated pension I receive from my self-managed super fund be tax-free while living overseas or do I have to re-establish myself as an Australian resident?

A Superannuation can be a tricky issue for non-residents but the facts seem reasonably straightforward in your case — as long as you are not departing Australia permanently.

Making contributions while working overseas is generally not a problem.

There are no restrictions against non-residents making super contributions.

Since July 1 this year, those under 65 can make non-concessional (undeducted) contributions of up to $150,000 a year, or use what's known as the "bring forward" option to make contributions of up to $450,000 over a three-year period.

You may be able to contribute after age 65 as long as you satisfy the work test.

Concessional contributions (or what used to be called tax-deductible contributions) of up to $100,000 a year might also be possible for someone in your age bracket.

The second part of your question relates to receiving a tax-free allocated pension while living overseas. This is more difficult to answer.

Although it sounds like an enticing combination, achieving it in practice can be complex and costly.

To see why, you need to remember that the generous tax concessions for superannuation in Australia are only available to funds that comply with certain rules.

Number one is that the fund must be a resident, regulated super fund at all times.

When you retire overseas, there is a real risk that your SMSF could lose its residency status, which means you would lose all the normal super fund tax breaks, including those relating to your allocated pension.

To determine whether your fund is a resident or not, the tax office considers three things: where the fund was established; where control of the fund lies; and where the active members reside.

If the answer to any of these is not Australia, the fund's complying status will be in jeopardy.

As you might guess, these requirements make retiring overseas permanently a challenge for most people.

You should also be aware that income that is tax-free in Australia might not retain that status in the tropical paradise you have in mind.

Making super contributions while working overseas should not be a problem as long as you meet standard contribution rules. The main thing to watch out for is the active-member test.

If most of the fund's active members are non-residents, you can become non-complying, which is why many advisers recommend that such members avoid making contributions.

The easiest way to spend time overseas without breaching residency rules is to take advantage of the "temporarily absent" provisions.

These rules are not too onerous and should allow you to spend around two years offshore as long as control of the fund remains in Australia.

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 Ref: 31149254