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Last chance opportunity!

This week I thought we would discuss some of the great opportunities that are available for smart, savvy and lucky investors.

I say smart and savvy because well informed people will be; and are taking advantage of the higher contribution limits available, for the last time this year.

These changes are the greatest opportunity we have seen, since the government allowed people to contribute up to $1M to super back in 2007.

I say lucky though because we have to be lucky enough to have the capacity to set aside these amounts in the first place.

Those who have sold assets for a profit may find themselves eligible to utilise the 10% rule. This is where if your income from an employer supported source represents less than 10% of your total income you may be eligible to make deductible or concessional super contributions.

At this time of year we also have to be lucky (or unlucky as it may be) to be self employed or have put in place a prospective salary sacrifice arrangement.

For most employees it is too late to take advantage of this fantastic opportunity as salary sacrifice arrangements have to be prospective (forward looking) arrangements.

Reduction of concessional contribution cap from 1 July 2009

The Government will reduce the concessional contributions cap to $25,000 per annum (indexed), with effect from the 2009-2010 financial year.

The transitional concessional contributions cap (applicable to individuals aged 50 and over from now until 30 June 2012) will be reduced to $50,000 per annum. Importantly the cap for these people will then drop to $25,000 also.

We have spoken about this before but $25,000 is not a great deal of money. For someone who has paid off the mortgage, raised the children and who are now turning their attention to saving for retirement.

No longer can you get to the latter part of your life and sprint to creating a comfortable retirement.

Those people with defined benefit super accounts have special rules that apply to them.

In some cases 'Grandfathering' arrangements will apply to members with defined benefit interests as at 12 May 2009 whose notional taxed contributions would otherwise exceed the reduced cap.

The annual cap on non-concessional contributions (NCC) is $150,000 per annum for the 2008-09 financial year and will remain at that level in 2009-10. In the future, the non-

concessional cap will be calculated as six times the level of the (indexed) concessional contributions cap.

Co-Contributions

This year is also the last chance, for some time at least, for eligible people to receive a $1,500 government co-contribution to their super account if they have made a $1,000 non-concessional contribution. (A non-concessional contribution is one that is made from after tax funds and has not had a deduction claimed on it.)

To be eligible you must receive income and 10% or more of that income must be from paid employment.

In the 2008/2009 financial year, after-tax voluntary super contributions will be matched at $1.50 for every $1 contributed up to a maximum co-contribution of $1,500 for those on incomes up to $30,342.

The amount is reduced by five cents for each dollar of income over $30,342. The maximum co-contribution phases out at an upper threshold of $60,342.

Next year you will only be eligible for $1,000 if you are under the minimum limit. The budget announcements have said this will be phased back in but we should believe this when we see it.

I was surprised to hear recently that the tax office is very much behind when it comes to making these co-contributions.

Around 200,000 out of a total of 1.3 million super co-contribution payments may not be made by them to super funds by the end of the 2008-09 financial year. This is due to problems with their systems.

They have said they will pay interest on the payments that have been delayed though but only at the rate specified by the Reserve Bank of Australia, which is currently at 3.16%.

A strategy to consider for older couples

A large majority of older couples usually have their principal home in both names as joint tenants. This isn't usually a problem as the principal home is not counted as an asset for the pension assets test.

However, what if the surviving spouse wants to downsize?

Strategy Analysis

In some cases when one person of an older couple passes away the surviving spouse will need to or choose to relocate to either a smaller property, or into aged care. The principal residence may be too big and require too much maintenance for the survivor, particularly as they get older.

Let's assume the house in question is worth, say, $1,000,000 and is owned as joint tenants between husband and wife. Upon the husband's death, his share automatically vests in his

wife.

If she sells that home and downsizes to, say, a $400,000 home unit, she then has $600,000 cash which would count as an asset and would now be way above the maximum assets she can have as a single person significantly reducing their age pension entitlements – and that's not counting any other savings the couple may have had.

An alternative proposition would be that each own their share of the principal home as tenants in common in equal shares. When either of the couple dies, their share can go to their children and the survivor can downsize with only $500,000 – enough to purchase a small home unit and $100,000 to top up the single persons pension (or use the full share to purchase a bigger unit).

You need to consider and seek advice as to whether you should change the title holding now. There will be no capital gains tax liability if the property has always been a principal place of residence and there would be no stamp duty on transfers between husband and wife.

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