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## FINANCIAL SERVICES PTY LTD

### Timely Tips

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#### Did you know?

If inflation runs at 3 per cent per annum, a person retiring at 60 will see their cost of living double during their retirement years. Put simply, a \$40,000 per annum retirement lifestyle at age 60 will cost \$80,000 at age 84.

While an 84 year old may not have the same retirement needs as a 60 year old as increasing costs in health and aged care may see them requiring the same level of income, particularly if they want choices in the care they receive and where they live.

*Source: Peter Kelly – Professional Investment Services October 2008.*



#### Superannuation Returns



Financial markets have taken investors on a turbulent ride over the past 12 months. The financial year 2007/08 saw share market values around the world fall, with the Australian share market falling in value by 13.4 per cent. Results like these cause understandable concerns, however it is important that the past year is viewed in perspective. Over the five years to 30<sup>th</sup> June 2008 the Australian share market rose in value by an average of 16.2 per cent per annum.

##### 2008 super statement perspective

Many superannuation funds invest in Australian and international share markets and as a result of the fall in the value of these markets in the past year, the value of your superannuation may have fallen from last year's statement. 2007/08 was a poor year but in the context of a long term investment goal, such as building your retirement savings, one year is a short term horizon.

##### The benefit of quality financial advice

Years like 2007/08 are unsettling; no one likes to see the value of their investments decreasing, however years like this reinforce the need for quality financial advice. Your financial adviser understands the volatility of financial markets and is qualified to help design a strategy that meets your investment objectives in a way that is appropriate for your attitude towards investing. Your adviser will assist you to put the financial markets into perspective.

##### What's been happening in the financial markets?

Share markets around the world started to fall in value in August 2007 primarily in response to the sub-prime mortgage difficulties in the US. The 'credit crunch' as it became known, spread to the broader markets and the US economy in particular slowed significantly.

The year has been characterised with sharp rises and falls in share market values. The net result for 2007/08 has been a fall in the value of the Australian share market of 13.4 per cent and for international shares a fall of more than 20 per cent. In Australia, the 'credit crunch' had the greatest impact on the listed property sector (property investment vehicles listed on the Australian Stock Exchange) that fell in value by 36.3 per cent for the year.

Many superannuation investments are in diversified funds that invest across different asset classes: shares, property, fixed interest and cash. Given the poor performance of shares and property both locally and internationally over the last year, these diversified funds may also have performed below expectations.

*Source: AXA*

#### Transferring UK Pension Entitlements (part 2)



In the September 2008 issue of Timely Tips, we addressed the very topical subject of transferring UK pension entitlements to an Australian superannuation fund.

Let's now have a look at the Australian consequences of transferring a UK benefit to Australia.

Many people who have an entitlement to a UK pension fund benefit may look to transfer it to an Australian superannuation fund because of the very favourable taxation environment that exists for superannuation benefits here in Australia. In the previous article we spoke about the UK taxation consequences of such a transfer and provided the benefit was transferred to a Qualifying Recognised Overseas Pension Scheme (QROPS), UK tax could often be ignored.

In order for a UK pension fund benefit to be transferred into an Australian superannuation fund (having QROPS status), the UK fund member must either be under the age of 65 or, if aged between 65 and 74, they must meet a work test in order for the Australian super fund to be able to accept the transferred amount. The work test requires the member to have been gainfully employed or self-employed for a minimum period of 40 hours worked over not more than 30 consecutive days, in the financial year in which the transfer occurs. Once a person is aged 75 or over, an overseas superannuation benefit can no longer be transferred to an Australian superannuation fund.

In essence, the transfer of a benefit from an overseas pension scheme to an Australian super fund is technically treated as a contribution so all the usual rules relating to contributions apply.

The length of time the transferring member has been an Australian resident will influence the way in which the transferred entitlement is treated from a taxation perspective.



### 1. Less than six months Australian residency

Where the overseas transfer is received by the relevant Australian super fund within six months of the member becoming an Australian resident (for tax purposes), the amount transferred is treated as a *non-concessional contribution*. Non-concessional contributions are not subject to tax in the hands of the receiving super fund but there is a limit on the amount of non-concessional contributions that can be accepted by an Australian super fund.

The limit is currently \$150,000 per financial year however, under a “bring forward” arrangement, up to three years contributions may be accepted (i.e. up to \$450,000) provided the member is aged 65 or less at the end of the financial year in which the transfer occurs. If the bring forward provision is triggered, contributions made in the following two financial years may be significantly restricted.

A member who is aged 65 or older cannot generally take advantage of the “bring forward” provision.



### 2. Greater than six months residency

Where the transferring member has been an Australian resident for more than six months, a part of the transferred benefit may be subject to Australian tax. The growth that has occurred on the overseas pension benefit between the date the member became an Australian resident and the date of transfer is to be included as assessable income in the member's Australian tax return in the year the transfer occurs. This will then be taxed at the member's marginal tax rate.

However, the member can make a written election to have the taxable portion of the amount transferred treated as a taxable contribution within their Australian superannuation fund. In such a case, the taxable portion of the amount transferred is taxed at a maximum rate of 15 per cent. This may be significantly less than the member's marginal tax rate, particularly if they are a high income earner.

The growth portion will be treated as a taxable contribution to the receiving Australian super fund but is not counted against the concessional contribution cap. Any tax-free portion will however still be counted against the non-concessional contribution cap.



Transferring a benefit from an overseas pension fund can be complex. Readers with overseas pension fund benefits should seek professional advice and assistance from a qualified financial planner before requesting their benefit be transferred to ensure they avoid any potential taxation pitfalls.

Source: Peter Kelly  
Professional Investment Services – October 2008

## About our services:

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## Services & Strategies we offer include:

- Investment & Estate Planning considerations
- Retirement Planning
- Financial Strategies
- Financial Structures
- Self Managed Superannuation Fund strategies & legislation
- Asset Protection
- Personal & Group Insurance
- Savings & wealth creation strategies
- Divorce & Separation strategies
- Business Succession planning
- Superannuation

## Contact your adviser at:

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