

Case study 2

Selling now for long-term gain

Helen, aged 55, works as a receptionist in Brisbane and has recently been contemplating how to maximise her retirement wealth. In 2002, upon receiving an inheritance from her aunt, she purchased a share portfolio worth around \$190,000. In March 2008, the portfolio is worth around \$270,000.

Assuming that all dividends are re-invested, the shares would be valued at around \$477,000 in 10 years' time. If the shares were sold in 10 years, Helen would incur a CGT liability of approximately \$46,600, leaving a net value of \$430,400.

As an alternative, Helen considers selling the shares and contributing the proceeds into superannuation.

In the future, when the fund is in pension phase, the assets can be sold without any CGT liability. If Helen sells the shares in March 2008, she will have a capital gain of around \$61,300. Because of the 50 per cent reduction for assets held for more than one year, a gain of \$30,650 would be included in her assessable income. This will incur a CGT liability of around \$12,700.

Helen contributes the sale proceeds into superannuation. In 10 years, assuming the same rate of growth and dividend yield, this portion of her superannuation fund will be worth around \$480,400.

For Helen, the benefit of converting assets to superannuation is approximately \$50,000 (\$480,400 less \$430,400).

Assumptions: The projections in this strategy are based on various assumptions including but not limited to, 4.5% pa capital growth; 2.1% pa dividend yield; dividends reinvested; 50% CGT discount applies if shares held for more than 12 months; Helen's marginal tax rate is 41.5%; projected values shown are net of CGT and retail fees.

Other converting considerations

Before converting your assets to superannuation it is important to fully understand the tax implications and the preservation rules of superannuation. In addition, it may be worth investigating the possibility of starting a non-commutable allocated pension (NCAP), which may further enhance the benefits to you.

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Need more information?

To find out more about how you may be able to benefit from converting your assets to superannuation, speak to your financial adviser today.

For further information contact your adviser

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Converting assets to super

An opportunity to boost your retirement savings

When it comes to your retirement savings, whether you invest in superannuation or in your personal name may make a difference to the amount of money you eventually receive. This is because of the different ways in which the Federal Government taxes superannuation and personal investments.

Convert your assets to super

The Government has changed the law to reduce the tax complexities faced by retirees and give greater flexibility over how superannuation savings can be drawn down. As a result of the Government's changes, it may be possible to make non-concessional contributions to your superannuation fund of up to \$150,000 per year, or \$450,000 averaged over three years if you are under 65.

What are non-concessional contributions?

Non-concessional contributions do not have tax deducted from them. They allow you to put money directly into superannuation without having to pay any further tax on the contribution.

In general, investments held in superannuation are subject to less tax on investment earnings than those held personally.

The superannuation advantage

For many people, using the \$450,000 limit to make non-concessional contributions means they may achieve greater long-term wealth by selling assets held in personal names, such as shares and property, and investing the proceeds into their superannuation fund.

Converting assets to superannuation – key features

Some of the benefits of converting assets to superannuation by making a contribution to your superannuation may include:

- boosting your superannuation in preparation for a tax-free income stream in retirement. Note: superannuation income for people over age 60 is tax free
- investment earnings from the superannuation assets will be taxed at a maximum rate of 15 per cent compared to your marginal tax rate if assets are held personally. Better still, in pension phase there is no tax on earnings, and
- you may be eligible to claim a tax deduction for all or part of the contribution (taxed at 15 per cent).

How does converting assets to superannuation work?

If you have investments in your own name, it may be worth evaluating the benefits of converting your assets into superannuation.

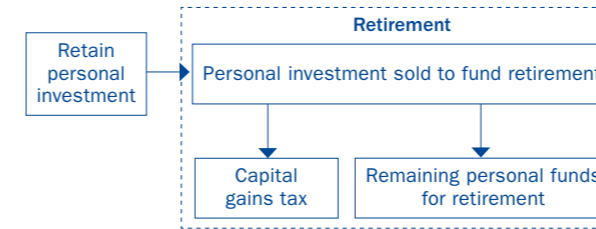
The diagram opposite highlights two scenarios:

- 1 **Sell later** – here, investments are held in your own name until they are needed in retirement. Capital gains tax will be paid at your marginal tax rate when the asset is eventually sold, eroding the total gain from the investment.
- 2 **Sell now** – this shows the result of converting a personal asset into superannuation. Here, the asset is sold and any capital gains tax liability is paid. The remaining funds are then contributed into superannuation, where the tax rate on income and capital gains is usually lower than your marginal tax rate. In retirement, the funds can be accessed tax free.

In each scenario, stamp duty and other transaction costs may apply.

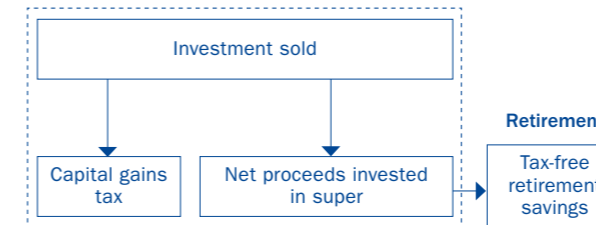
Scenario 1

Keep assets in personal name and use to fund retirement at a later stage



Scenario 2

Sell asset now, pay capital gains tax and contribute net proceeds to superannuation



Case study 1

Boosting super savings

Andrew is aged 46. He plans to retire at 65 and will continue to work as a plumber earning \$70,000 until then. In addition to owning his own home, he owned an investment property on the Gold Coast which he sold last year and made a net gain of \$200,000.

Andrew has two options:

- 1 He can use the proceeds to set up a managed fund investment portfolio. At retirement, his investment portfolio would be worth around \$596,000. If Andrew sold the investments at retirement, he would incur capital gains tax of approximately \$64,300. Therefore he would receive a net benefit at retirement of approximately \$531,700.
- 2 Alternatively, Andrew could contribute the proceeds to his superannuation fund. At retirement his superannuation savings would be worth around \$658,000. Assuming at retirement he commences a pension and then sells down the investments he will not pay capital gains tax. Additionally, as he will be over age 60, he will be able to withdraw the benefits tax free, subject to preservation rules.

By contributing the proceeds to superannuation, Andrew could potentially boost his available superannuation funds at retirement by over \$125,000.

Assumptions: The projections in this strategy are based on various assumptions including but not limited to: 4.5% pa capital growth; 2.1% pa income; income reinvested; 50% CGT discount applies if investments held for more than 12 months; Andrew's marginal tax rate is 41.5%; projected values shown are net of CGT and retail fees.