End of year strategy

Asgard

Spouse contribution splitting

“Divide your super with your spouse and save”

The strategy in a nutshell: Split certain superannuation contributions into your spouse’s account and save for retirement by using the taxation concessions available through superannuation.

The strategy

Spouse contribution splitting helps you and your spouse accumulate more tax-effective wealth for retirement by allowing you to split certain contributions from your super account to your spouse’s super account. By doing so, you can more fully utilise the taxation concessions available in retirement for monies inside the superannuation environment.

You can apply from 1 July to split contributions made to your super fund between 1 January 2006 and 30 June 2006, which means you need to get your contributions in by 30 June 2006 to be eligible.

Who can receive the split contributions?

A ‘spouse’ under superannuation law is a person who is in a genuine domestic bona fide relationship as husband or wife (married and de facto). Same sex couples are excluded. The receiving spouse must be under 65 and not retired.

What type of contributions can be split?

‘Taxable contributions’ have a 15 per cent contribution tax withheld when they are paid into superannuation. These include salary sacrificed contributions and Superannuation Guarantee contributions. You can split up to 85 per cent of your gross amount of taxable contributions across to your spouse’s account.

‘Untaxed contributions’ do not have any tax payable when they are contributed into superannuation and include personal undeducted contributions, spouse contributions and Government co-contributions. You can split up to 100 per cent of these benefits across to your spouse’s account.

When can the split occur?

You can only make one valid application per financial year to split contributions across to your spouse’s account. The split generally occurs in the new financial year for contributions received in the previous financial year, which means you need to get your contributions in by 30 June 2006 to be eligible.

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If you intend to roll your entire account balance out of your account, you may be able to split the eligible contributions across to your spouse's account at that time.

What happens if I intend to claim a tax deduction for super contributions?

If you're eligible and want to claim a tax deduction for contributions made to your superannuation account, you must notify the trustee of your intention to request a contribution split before you do so.

Impact of 2006 Federal Budget

The majority of the advantages of spouse contribution splitting will diminish from 1 July 2007 if you are aged 60 or over at that time. This is because you would be able to receive your superannuation withdrawals tax-free.

However, spouse contribution splitting may still have an important role to play in your retirement planning, particularly if you can split to an older spouse who will be able to access the benefits sooner than you. Alternatively, splitting to a younger spouse (who is below pension age) could assist in maximising Centrelink benefits.

Case study

Crissy and Mark are both 55 years of age. Crissy works full-time and earns $90,000 pa. She has made a salary sacrifice agreement with her employer and will sacrifice 50 per cent of her $90,000 income going forward. She has currently accumulated $415,000 in her super account. Mark works part-time and earns $35,000 pa. He has $50,000 in his super account.

The table below compares their position at retirement (age 65) if they were to do nothing or if they take advantage of the proposed changes.

	Do nothing		Split contributions	
	Crissy	**Mark**	**Crissy**	**Mark**
Super benefits at 55	$415,000	$50,000	$415,000	$50,000
Super benefits at 65	$1,201,356	$144,614	$632,743	$686,471
Excessive benefits at 65	$240,758	Nil	Nil	Nil

Given the above the figures, Crissy and Mark would be much better off if Crissy splits her salary sacrificed contributions. This would allow them to tax effectively income split in retirement. At retirement, all of Crissy's benefits will be within her Reasonable Benefit Limit (RBL) as opposed to having $240,758 in excess (and taxed at penalty rates) by not undertaking splitting.

Assumptions for calculations:

- growth rate of 5 per cent applied to account balance
- contributions tax has been considered
- indexation rate of 4 per cent pa applied to RBL
- only salary sacrificed contributions are split
- SG contributions are payable on gross salary

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