GFM Wealth Advisory

TRADE SECRETS

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SMSF Specialists | Investment Management | Financial Planning | Accounting

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SUPERANNUATION HIJACKED BY POLITICAL SPIN

By Tony Gilham

Talk about a political spin served up to all of us!!

The recent abolition of the Minerals Resource Rent Tax (the Mining Tax) and then linking with that, a delay to the increase in Compulsory Superannuation Contributions paid by employers, is the highest form of political spin that we've seen in quite a few years, with both sides of parliament equally guilty. The Superannuation Guarantee Charge (SGC) is the compulsory superannuation contribution paid by each employer at a rate of 9.5% of the employee's gross salary. It is legislated to increase to 12%.

In the last Federal Budget, the current Government proposed to delay the next increase by 2 years, but because the increases in the SGC were originally put forward as part of the Mining Tax 3 or 4 years ago, the government is now proposing to delay the next increase for 6 years, increasing 0.5% each year from July 2021, and reaching the maximum 12% in July 2025.

When the previous Government proposed the mining tax, they made it very clear that it was part of a package to increase SGC contributions from 9.0% at the time up to 12%, and the legislation was passed. Certainly not a bad thing that compulsory superannuation contributions are increased, because as a nation, we are saving a larger portion of our available wealth, but other than linking the 2 pieces of legislation together at the time, the mining tax and an increase to SGC have absolutely nothing to do with each other.

The Government at the time distinctly gave the impression that it was they who were paying an increase to super contributions, but that's rubbish, naturally it's the employer that continues to pay.

Well, as soon as this was announced a few weeks ago, the "spin machines" got in to full gear. The first headline was that it would:

"DESTROY LIVING STANDARDS"

Well instead of the SGC increasing by 0.5% a year commencing July 2015, the commencement will now be pushed back to July 2021, but we will still end up with a 12% SGC rate, only 6 years later.

Yes, it certainly has an impact, because there's a smaller amount going into your superannuation fund each year, but for an employee on a salary of say $60,000, the 0.5% increase would have added $300 to their superannuation fund each year ($255 net of the 15% contributions tax), hardly significant enough to "Destroy Living Standards".

Let's put some numbers around this.

Ben is age 40, on a good salary of $90,000 and already has $125,000 in super. We assume his salary increases by 3%, and we assume his superannuation fund generates an average net return of 7.35% pa (4.1% income and 3.25% growth, with 28.5% franking credits, and that he maintains continuous employment to age 65).

The delay in the increase in the SGC will obviously have an impact, and the present day value of his retirement benefits, discounting for 3.0% pa inflation, is:

- $611,654 – Under the current legislation
- $590,411 – Under the proposed six year deferment

So in present dollar terms, he's $21,243 worse off in 25 years, or his final benefit is only 96.53% of what it would have been worth if the current legislation stays.

We don't think it would destroy his living standard.

Employers pay superannuation contributions, and naturally include this as part of their overall employment expenses, including such things as annual leave, long service leave, payroll tax, work cover, etc. It's just one of the add on costs of employing people.

It's quite clear that superannuation contributions are actually part of total employee remuneration, that has to be put in to superannuation on behalf of the employee, paid by the employer.

Yes, it's disappointing that superannuation contributions aren't increasing faster, and it's probably also disappointing that the total superannuation contribution isn't more than 12%, and we think it will eventually get to 15%, as was recommended in the Fitzgerald Report back in 1993.

The main question for Ben is not so much that his SGC increases have been deferred 6 years, it's more about whether his estimated retirement benefit will be adequate. Ben's currently on a gross salary of $90,000, and anticipating a final retirement benefit of around $600,000 in present day terms. If he retires, at age 65, and his superannuation fund provides him an income yield of say 5%, then on a balance of $600,000, that's a cash income of about $30,000 a year, certainly not attractive when you think that he was previously earning $90,000 a year.

There is absolutely no question that Ben will be underfunded for his retirement, and this even takes in to account that the SGC contributions do increase to 12%. Clearly, 12% isn't enough.

Currently, less than 35% of Australians make additional contributions to their superannuation fund, by way of a salary sacrifice superannuation arrangement. It's an alarming statistic.

In other words, 65% of the employees in Australia don't make any additional provision for their retirement planning other than compulsory contributions paid by their employer.

If Ben reaches age 65, and he struggles on a cash income of $30,000 a year, who can he blame?

He can't blame the Government, the superannuation system in Australia is quite generous, and by far, more tax effective than non-superannuation investments.

He can't blame his employer, who has complied with the law, by paying the compulsory contributions currently at 9.5% and eventually increasing to 12%.

If he's underfunded in retirement, he only has himself to blame.

Dr Vince Fitzgerald, prepared the Fitzgerald Report for the Federal Government back in 1993, soon after the introduction of compulsory superannuation. In a very detailed analysis, he came to the conclusion that and employee would need a contribution of 15% of gross salary into a superannuation fund each year for 45 years, in order to fund an ongoing retirement benefit equal to 65% of pre retirement salary. Or in the case of Ben, a retirement income of something like $60,000.

If you are an employee, and all that is going in to your superannuation fund is the compulsory 9.5% employer contribution, then it is extremely likely that you won't hit a reasonable retirement target.

Every employee should be salary sacrificing some part of their gross salary as additional superannuation contributions, not only does it save personal income tax, but it gives you a much better chance of reaching a satisfactory retirement target.

THE TAX MAN SUPPORTS SUPERANNUATION INCENTIVES

By Tony Gilham

Tax Commissioner Chris Jordan has warned against over-regulating Self Managed Super Funds, saying investors who legally use the system and manage to "hit the jackpot" are doing nothing wrong. He said the debate about Self Managed Super Funds had been skewed by the focus of wealthy taxpayers and any efforts to stop them using super tax breaks would impact also on the majority of taxpayers who are not wealthy. As the regulator of the SMSF sector, Mr Jordan said that there were limits on the amount of money to be put in taxed advantage super funds, "but if someone has hit the jackpot and has got $10 million in their super fund, well good luck".

Well, it's certainly nice to see the support of the ATO in favour of superannuation funds generally, SMSFs, and the taxation advantages that they enjoy.

Keep in mind that the ATO doesn't enact tax laws, it just governs and regulates the system of taxation in Australia as directed by the Federal Government.

And now that the government wants to "fix the budget hole", there's been quite a bit of press from some corners that say that the tax rates on superannuation funds are too generous, and should be increased.

It's important to remember that the 2 main areas of tax on superannuation, a 15% tax on concessional contributions, and a 15% tax on super fund earnings, have remained constant now for 26 years, and we don't see them changing any time soon.

For those who make a concerted effort to build their superannuation balances through sheer hard work and saving, hoping to self-fund their own retirement, have to listen to the "here we go again" debate about whether tax concessions are too generous, and it's incredibly irritating.

Self Managed Super Funds have been singled out, presumable because on average they have much larger balances than public offer funds, and they're able to use franking credits to cut their tax bill and no tax is paid on earnings when the fund moves from accumulation to pension phase.

But exactly the same rules apply to all super funds, whether they are industry, retail or corporate funds, the only real advantage that an SMSF has is that an SMSF fund member can "manage" their tax position rather than being in a large pooled fund where they can't control the tax outcome.

Governments around the world have encouraged retirement self sufficiency by providing taxation incentives, and it's perfectly legal for any Australian to take advantage of those tax concessions and build their superannuation account balance, hopefully so that they can get in to retirement, and not have to rely on an unfunded Government Age Pension System.

Sure, there are a lot of people with super balances of say $2 million, $5 million and more, and they are enjoying generous taxation concessions but there is no question that these same people would have paid a bucketload of tax in their working lives in order to get in to this healthy position of self sufficiency.

NEW WEBSITE LAUNCH

By Paul Nicol

www.gfmwealth.com.au

We are thrilled with the launch of our new website on the 1st August and we hope you have had a chance to check it out. The website is easy to navigate and contains interesting, informative and up to date articles. It's an excellent source of information for both our existing clients and prospective new clients.

You are able to access our newsletters such as Weekly Email, Super Smart and Trade Secrets, a variety of Strategy Papers and Case Studies.

Over the coming months we will be introducing a social media presence on Facebook, LinkedIn and Twitter and working on some enhancements to the website.

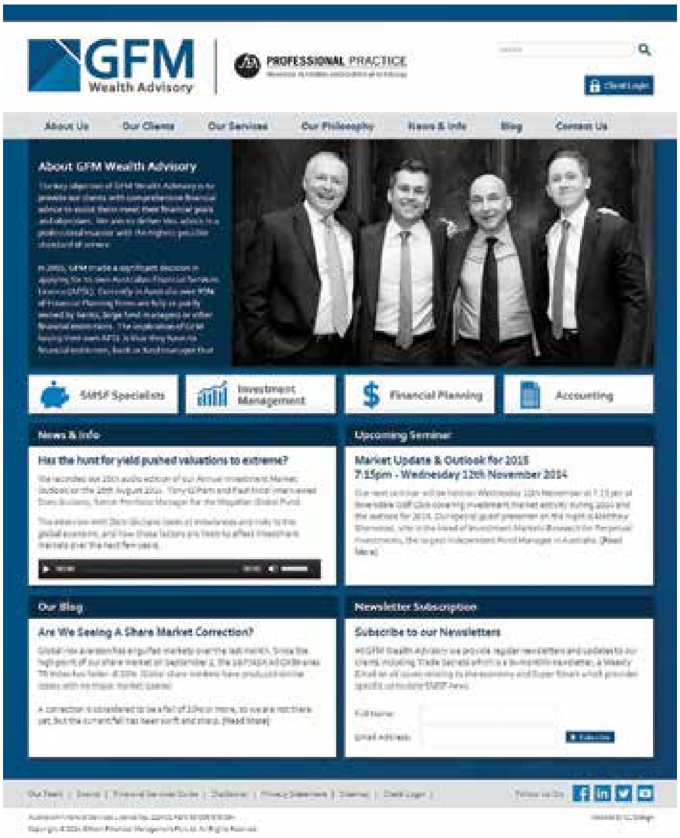
Some of the enhancements will include market update videos, regular blogs, additional case studies and strategy papers. We are also working on the optimization of our website for mobile devices which will be available shortly. We will keep you informed.

Thank you to all of our clients that have already visited our website and for the positive feedback we have received, it is much appreciated.

If you have not visited our website, we invite you to check it out. We welcome your feedback, so feel free to send us a message using the Contact Us page.

We are extremely thankful to Charles Lin for the development of our website and to Mai for her ongoing dedication and efforts with this project.

We will continue to update you with the upcoming enhancements and progress of our introduction of our social media presence in the coming months.



ESTATE PLANNING SEMINAR: CREATING CERTAINTY

By Mai Davies

We held our Estate Planning seminar on Monday 18 August at the Leonda by the Yarra in Hawthorn with 150 clients and guests in attendance. We were delighted to have the team from GFM Gruchy Accounting and their clients join us for the first time and we look forward to seeing them again at future seminars. We changed our venue from Riversdale Golf Club on this occasion as we had overwhelming response and didn't want to disappoint anyone.

The feedback from the attendees was excellent. They found the presentation very interesting and informative and appreciated having a lawyer present.

Our special guest presenter was Andrew Lord, Principal of Lord Law who gave a general overview of Estate Planning. Andrew personally practices in the areas of Wills, Deceased Estates and Enduring Powers of Attorney.

Tony Gilham also presented and specifically focussed on SMSF Estate Planning issues.

The following topics were covered:

- Benefits of a good estate plan
- Preparing a Will
- Common mistakes with Wills & Estate Planning
- Enduring Power of Attorney
- Testamentary Trusts
- Role & Responsibilities of Executor
- Asset protection for beneficiaries
- What happens to your superannuation on death
- The best superannuation/SMSF Beneficiary options
- Tax Treatment of Superannuation Death Benefits

Estate Planning is a complex area and it's very important to have an understanding of all the aspects involved in having a good estate plan.

We have many clients that live interstate, overseas and some on holidays that were unable to attend so we decided to take a video of the presentation which can be found on our website along with the power point presentation.

If you missed the seminar and are interested in the topic, please visit our website *www.gfmwealth.com.au*

The presentation and video can be found in News & Info/ Events/Past Events.

If you have any questions in relation to the presentation or would like to make a time to see one of our financial planners, or get a referral to Andrew Lord to discuss your estate planning requirements, please call our office on 9809 1221

WHAT INVESTORS WANT

By James Malliaros

A recent survey of superannuation fund investors in Australia, came up with the 3 top needs, particularly relating to SMSF Trustees. These were:

1. Investment Expertise

In most cases, there's a fairly large amount of money being invested. The trustees want someone that has a good handle on investment markets and investment opportunities, and isn't just plugging one type of investment.

2. Independence

The trustees want someone that's working for them, trying to satisfy their needs (strategy and investments) and not the needs of any external party. There should be no conflicts of interest: Investments should be recommended on their merits, suitable to the objectives of the SMSF trustees, and without any "hidden agenda".

3. Professional Qualifications

SMSF trustees understand that the whole subject of superannuation and retirement planning, taxation, government regulations and Age Pension Benefits is extremely complex. They want an advisor that has suitable qualifications, significant experience and "runs on the board".

CASE STUDY:
WHAT YOU REALLY NEED TO FOCUS ON IN RETIREMENT

By Patrick Malcolm

This is a case study regarding a potential new client that was referred to us in the early months of 2008, just before the GFC really set in.

Let me give you the background.

John and Betty (not their real names), were fully retired, ages 67 and 65, and had a successful Self Managed Superannuation Fund with us, for more than five years at the time, with a balance in July 2008 of $1,003,000.

They had a well diversified, high quality investment portfolio, holding many of our favourite investment options, and even though their portfolio was down in value over the preceding 8 months (the first stage of the GFC), they were comfortable with their position and comfortable with the quality of investments that they owned within their SMSF.

Anne (not her real name) was recommended to us by John and Betty, in the early months of 2008. Anne had an SMSF, which had been set up by her late husband 4 years previously, and sadly her husband died 2 years after the SMSF had been set up at age 69. Apparently the SMSF had been set up on the recommendation of her husband's tax accountant, who in turn recommended a financial advisor who helped them organise the investments for their super fund. As it turns out, Anne didn't like the financial advisor, and after her husband passed away she disengaged his services and basically left the portfolio untouched until she saw us in 2008.

When we reviewed the portfolio, we came to the conclusion that it was of fairly poor quality, with too many complex and speculative investments for someone in the retirement phase of their life. There wasn't enough focus on income generation, and the portfolio was poorly diversified.

One year earlier Anne's superannuation fund was worth $1,100,000 and rounding to the nearest $1000, transactions over the 2007/08 FY were:

-$55,000	Minimum Pension drawn by Anne
-$13,000	Investment Management, Accounting & Audit Fees
-$144,000	Net Investment loss for the year
+$9,000	Franking credits refunded to the SMSF
$897,000	Closing balance of the 30th June 2008

There were only 11 investments across the fund, and the 3 poorest investments had lost a combined $100,000 over the 12 months.

In the early stages of the GFC, and having experienced some very poor results in the previous 12 months, Anne was naturally concerned, and wanted us to review her SMSF portfolio and potentially take over the management of the fund. As a result of our review, we realised there was a lot of poor investments in the portfolio and our initial recommendation was to get rid of 8 out of the 11 investments, keep only 3, and rebuild the portfolio from there.

Our proposed new portfolio recommended many of our favourite investments, and we put this proposal to Anne in July 2008, but the news about the GFC distressed her and she decided to put everything into Term Deposits, the whole $897,000, and decided that she didn't need to use our services.

Well, in the next 6 months, I think Anne was quite pleased with herself, she had secured average Term Deposit rates above 7%, at a time when the GFC was going through its toughest period, and all other superannuation funds were losing money.

The GFC is now basically history, investment markets around the world have recovered, and the last two years in particular have been very strong.

So after 6 years of "going it alone", Anne decided to come back and discuss her SMSF with us, because of the poor returns she's now getting on her term deposits.

In the table below, we show the results for both SMSF portfolios, John and Betty, who rode out the tough times and stuck with their portfolio, and Anne, who went to term deposits after July 2008 and has stayed there now for 6 years

	John and Betty	Anne
Portfolio Value 1/7/08	$1,003,000	$897,000
Minimum Pensions Drawn Each Year[1]	$50,150 (2008/09)	$44,850 (2008/09)
Average Rate of Return Over 6 Years[2]	7.42% pa	5.21% pa
Balance as at 30th June 2014	$1,154,000	$880,940
2013/14 Cash Yield[3]	6.08%	3.70%
Prospective Cash Yield 2014/15[4]	$69,250	$32,597
Franking Credits and Costs[5]	+$12,000 Franking credits -$11,232 Inv Mgt, Accounting & Audit Fees (Estimated)	-$3300 Accounting & Audit Costs (Estimated)
Estimated Net Income 2014/15	$70,013	$29,297
Estimated Minimum Pension 2014/15[6]	$57,700	$44,047

Special notes:

1. *Both John and Betty and Anne have continued to draw the minimum pension of 5% of their account balance over the last 6 years.*
2. *This is the average gross rate of return over the 6 year period.*
3. *This is the total cash yield, dividends, interest and distributions received over the 2013/14 FY.*
4. *We are estimating that prospective cash yield in the coming financial year, and for John and Betty, that's based on an assumed cash yield of 6%. For Anne, it is based on interest earnings on her term deposits, assuming rates don't change in the next 12 months.*
5. *John and Betty have a good exposure to Australian Equities that pay fully franked dividends and hence will receive a refund of franking credits from the ATO. Anne has no franking credits, and her costs are simply the Accounting, Audit and Compliance costs.*
6. *This is the estimated minimum pension drawings that each of them have to take for the 2014/15 FY.*

Anne now realises that she is in a difficult predicament. Whereas John and Betty's SMSF balance has funded their pension payments and increased quite a bit over the last 6 years, Anne's balance has dropped below the 2008 figure, and basically can't increase, because it's all held in cash and term deposits. And the minimum pension that Anne has to draw this year, is about $15,000 more than the estimated net income for the 2014/15 FY, which means that her balance will continue to decrease.

Anne is certainly in a comfortable position, it's highly unlikely that she'll ever run out of money (now age 72), but her SMSF is now substantially under-performing, John and Betty's portfolio, and of course the critical difference is the estimated net income for the 2014/15 FY which is:

- **$70,018 for John and Betty**
- **$29,297 for Anne**

John and Betty's fund is generating more income than they necessarily require, but Anne's SMSF isn't generating enough income to cover her minimum pension payment and not only is the capital value of the fund certain to decrease over the next few years, there's also no protection against future inflation.

Anne now wants us to take over the management of her SMSF, effective from 1 July 2014, but the predicament that she's facing, is that many of our most popular investments (which were also recommended in 2008) are now substantially more expensive. The table below highlights how they have changed over the last 6 years:

Investment	Current Price (Shares Only)	Performance Since July 2008
CBA	$78	up 100%
Ramsay Health	$50	up five fold
Westpac	$33	up 83%
Woolworths	$35	up 49%
Ironbark Karara		up 86%
Magellan Global		up 123%
Platinum Asia		up 59.3%

And all of the above figures are price growth only, and dividend payments are on top of that.

The moral of the story:

Buy quality investments, and hold them for the long term.

Focus your attention on income generation, and don't worry about capital movements, up or down, it's only on paper, and you only lose money if you sell at a price lower than your purchase price.

We have estimated John and Betty's net income for the current financial year from the portfolio at $70,018, and it's almost certain that we will be within $2000 of that figure, and it's more than they need to draw as their pension payment for the year.

Footnote: *John, Betty and Anne (not their real names) have all consented to the use of this detailed, factual information, and we respect their privacy.*

"Buy quality investments, and hold them for the long term."

STAFF PROFILE:
ANNIE ZHOU AN

By Bryan Meehan

Annie commenced her career with GFM in 2005 as our Client Service Administrator. In 2007, Annie joined the SMSF team as an Administrator and as the business has grown over the years, she has accumulated experience in many areas and has developed excellent technical expertise in administering Self Managed Super Funds.

In the role of SMSF Senior Administrator, Annie is mainly responsible for the setup of new funds and private investment portfolios, and also works closely with our accountants to co-ordinate the completion of the SMSF tax returns.

Annie is passionate and dedicated in assisting our clients to have their queries or issues resolved as quickly as possible.

Here's a quick Q and A with Annie, with some things that you may not know about her:

Q. Your family

A. I am married to Aaron and we have a beautiful 3 year old daughter Amanda. I met Aaron in 2003 as he was studying to become a Chef. I thought I was on a good thing married to a Chef but I soon found out if I needed to find out what type of Chef he was I needed to visit the restaurant he worked in because he doesn't cook at home!!

Q Favourite holiday destination?

A. I always enjoy returning to China to visit family and relatives. I also love travelling to country Victoria and we love visiting Eden.

Q. What attracted you to Australia and Melbourne?

A. I arrived in Australia in 2001 to commence a Bachelor of Commerce Degree at La Trobe University. After Graduation I decided to stay as I loved Melbourne and the lifestyle and I had met Aaron and he was very settled in Melbourne. Aaron had actually come to Melbourne from China in 2001 as well.

Q. Hobbies?

A I play badminton and I love to go fishing. We have only recently purchased our first house so I love doing the garden and doing odd jobs around the house.

Q. Favourite food/drink?

A I love the Aussie BBQ's and enjoy a juice. I still also enjoy a good Chinese meal.

Q. Your proudest moment?

A. It goes without saying that my proudest moment was the moment I gave birth to Amanda. This very special feeling with Aaron and the love, joy and responsibility that Amanda has brought to our lives makes us both extremely proud.

Q. What you'd like to do for fun?

A I love taking Amanda out and it doesn't matter where we go, just watching her grow up and enjoy playing outdoors when we go on picnics.

Q. Best part of working at GFM

A. I love working with everyone at GFM, especially the SMSF team members. We care and support each other and some of us have been working together for a long period of time which has made us not just workmates but very good friends as well.

ESTATE CHALLENGE LAWS IN VICTORIA:
RADICAL CHANGES

By James Malliaros

On 19 August 2014, a Bill was introduced into Victorian Parliament which proposes to radically change the laws relating to the challenge of an estate in Victoria.

The Justice Legislation Amendment (Succession and Surrogacy) Bill 2014, was prepared in response to the Victorian Law Reform Commission's review into Victoria's succession laws, and is stated to implement a number of the recommendations made by the Commission.

Of key significance are the following changes:

1. Limited class of people who can challenge an estate

Currently, Victorian legislation provides that any person who believes that a deceased person owed a responsibility to make provisions for them in their will can challenge the will on the basis that it does not adequately provide for them.

It adopts a "criteria-based" test as opposed to other Australian states and territories where a list of eligible persons who can make a claim is provided in legislation.

In response to concerns that such an open-ended test invites opportunistic and non-genuine claims, the Victorian Law Reform Commission recommended that Victoria adopt a list based approach similar to other states and territories.

In adopting the recommendation, the Bill defines who is an "eligible person" and has the ability to challenge a deceased person's estate. The list of eligible people includes:

- A spouse or domestic partner (current or former if no property settlement reached);
- A disabled child of any age (see new definition of disability at item 2 below);
- A non-disabled child of the deceased who was under 18 or under 25 and studying full-time at the time of the deceased's death; and
- A non-disabled child of the deceased who is over 25, or over 18 and not studying full-time, and who was wholly or partly dependant on the deceased for their maintenance and support at the time of the deceased's death.

Most importantly, an adult child who is not disabled and was not dependant on the deceased at the time of their death is not an "eligible person" and therefore cannot seek to challenge their parent's estate.

This change will be a huge relief to Willmakers who have an adult child that they do not wish to make provision for. If this Bill is passed, there will be no ongoing concern about the risks of not making provision for an adult child, unless the child was dependant on the deceased or is disabled.

2. Ability to contract out of an estate challenge

The Bill also contemplates that a Willmaker may enter into an agreement with an eligible person to release their estate from any future claim that eligible person may have to challenge their estate.

Under the current law, such an agreement can theoretically be entered into between a Willmaker and a potential claimant however the validity of the agreement in successfully preventing the anticipated claim is questioned. In some instances, these agreements have been effectively ignored when, for example, the claimant finds themselves in vastly different circumstances at the Willmaker's death.

For the agreement envisaged by the Bill to be effective it must be in writing and the party releasing the estate from any future claim must have received independent legal advice on the effects of the release.

It's hard to imagine an adult child agreeing to contract out of challenging their parent's estate, however, it is likely to be of real value in the context of domestic relationships.

If a Willmaker is seeking to ensure that his or her estate will be preserved for children from a previous relationship, an agreement could be entered into between the Willmaker and their partner to agree that the partner will not seek to challenge the estate. We envisage that this could be undertaken as part of a Binding Financial Agreement, so that the parties to the relationship agree to the division of assets if the relationship ends and not to challenge one another's estates upon death.

The Bill is proposed to become law on 1 July 2015, unless proclaimed earlier. If passed, it will create a lot more certainty for Willmakers and will allow them to manage the risk of challenge to their estate.

2014-15 TAX AND SUPERANNUATION THRESHOLDS AND LIMITS

By Paul Nicol

Australian's general understanding of our tax system is poor. It often amazes us how many people don't understand the basic fundamentals of our tax system including personal income tax rates, tax levies and tax offsets available. An individuals effective tax free thresholds is also poorly understood and in many instances not properly utilized. Below is a simple snapshot of the key fundamentals of Australia's tax system:

Income tax rates and thresholds

Only the top personal income tax rate will change for next financial year, moving from 45% to 47% to reflect the **Temporary Budget Repair Levy**. The personal marginal tax rates for 2014–15 are:

Tax Rates 2014-15

Taxable Income	Tax Payable
$0–18,200	Nil
$18,201 – $37,000	19c for each $1 in excess of $18,200
$37,001 – $80,000	$3,572 + 32.5c for each $1 in excess of $37,000
$80,001 – $180,000	$17,547 + 37c for each $1 in excess of $80,000
Over $180,000	$54,547 + 47c for each $1 in excess of $180,000

Note: *The Medicare levy is an extra 2.0% in addition to the above. Different thresholds and rates of tax apply for minors and non-residents*

Temporary Budget Repair Levy (TBRL)

As announced in the May Federal Budget, an additional 2% levy applies to certain individuals from 1 July 2014. The TBRL will be levied on taxable income in excess of $180,000 pa for a period of three years, expiring on 30 June 2017. This will effectively raise the top marginal tax rate from 45% to 47% as shown above. Consequently, changes to other tax rates based on the top marginal tax rate are required to preserve integrity in the tax system.

Low Income Tax Offset (LITO)

The LITO is used to provide tax relief to low and middle income earners. In the 2014–15 financial year it will remain unchanged, so individuals with taxable income of less than $37,000 pa will get the full benefit from the LITO, which can reduce their tax payable by up to $445. For every dollar over the lower threshold of $37,000, the LITO reduces by 1.5 cents in the dollar or 1.5%, until it completely cuts out when an individual's taxable income reaches $66,667.

Low Income Tax Offset 2014-15 (LITO)	
Maximum Offset	$445
Low Taxable Income Threshold	$37,000
Cut-Off Threshold	$66,667
Reduction Rate	1.5%

This means that individuals with taxable income up to $20,542 will not pay any tax in 2014-15.

Seniors And Pensioners Tax Offset (SAPTO)

The rebate amount and thresholds for 2014–15 are:

Family Status	Maximum Tax Offset	Shade-Out Threshold[1]	Cut-Out Threshold[2]
Single	$2,230	$32,279	$50,119
Couple (each)[3]	$1,602	$28,974	$41,790
Couple (separated due to illness)[3]	$2,040	$31,279	$47,599

1. *The shade-out threshold is the maximum rebate income at which individuals will be entitled to the maximum tax offset. The tax offset reduces by 12.5 cents for each dollar of rebate income in excess of the shade-out threshold.*
2. *The cut-out threshold is the level of rebate income at which the offset reduces to nil. At or above this level of rebate income, there is no entitlement to the tax offset.*
3. *Any unused portion of the tax offset may be transferable to the partner under TR 93/31.*

Effective Tax-Free Thresholds

The effective tax-free threshold is the level of income at which a person starts to pay tax, after taking into account any relevant tax offsets including the LITO and the SAPTO.

The effective tax-free thresholds for a range of individuals in 2014–15 are described in the table below.

Category	Effective Tax Free Threshold In 2014-15	Method Of Determining Effective Tax Free Threshold
Individual - standard tax-free threshold (including LITO)	$20,542	For a person entitled to the standard $18,200 tax-free threshold, the effective tax-free threshold is $20,542 when the $445 LITO is taken into account.
Minor - unearned income	$416	A person under age 18 is entitled to a tax-free threshold of $416 for 'unearned' income (subject to certain exceptions). The marginal tax rate on income in excess of this amount, up to taxable income of $1,307 is 66%. Where taxable income exceeds $1,307, tax is payable on the entire amount at 45%. A person under 18 is not entitled to the LITO in relation to unearned income. This does not affect minors who are disabled, orphans, or were engaged in a full-time occupation at the end of the financial year.
Individuals who are aged between preservation age (currently age 55) and age 59 (inclusive)	$49,752 (Superannuation Pension Income only)	Where the person's only source of income is a superannuation income stream from a taxed super fund, the effective tax-free threshold is $49,752. The taxable pension income attracts a 15% tax offset. Where the person receives a combination of pension income and other income, the effective tax-free threshold depends on the amount of each type of income.
Individuals who are age 60 or over but have not reached Age Pension age or Service Pension age	$20,542	All pension income from a taxed super fund is tax free. The effective tax-free threshold on income from other sources is $20,542.
Individuals who have reached Age Pension age or Service Pension age and qualify for SAPTO	$32,279 single $28,974 each member of a couple or $57,948 combined	All pension income from a taxed super fund is tax free. The effective tax-free threshold on income from other sources is: • $32,279 for single people. • $28,974 each for members of a couple or $57,948 combined. Note that where members of a couple have unequal taxable income, it may be possible to transfer unused SAPTO to the other member of the couple in certain circumstances.

Note: *All thresholds include low income tax offset, and exclude Medicare Levy, ie Medicare levy may still be payable*

Medicare Levy Thresholds

Effective from 1 July 2014, Medicare levy increases to 2% of taxable income.

As announced in the May Federal Budget, however, from 1 July 2014, the Medicare levy low income threshold that applies to families will increase to $34,367. The increase on this threshold for each dependent child or student is $3,156. The low income thresholds for individuals and pensioners remain unchanged at $20,542 for individuals and $32,279 for pensioners eligible for the SAPTO.

In future editions of trade secrets we will continue our focus on Australia's taxation system with practical suggestions on how to lower tax and how to make best use of the various offsets available.