Divide and conquer

Couples Splitting contributions is a smart move in more ways than one, writes **Duncan Hughes**.

Now is a great time for married, de facto and same-sex couples with self-managed superannuation funds to audit their assets and begin thinking about splitting their super assets, financial advisers say.

Happily, splitting marks the beginning – rather than the end – of a great financial relationship designed to last a lifetime.

Super splitting, which involves transferring concessional, or tax-deductible contributions from the account of a fund member to their partner, can be a sensible, simple and strategic way of dividing contributions and managing the transition into retirement while maximising income.

It's particularly beneficial where there is a reasonable age gap, say five years or more, or a sizeable difference in incomes between the partners.

"I usually do it for clients where there is an age gap of at least five years," says Joshua Cratchley, a certified financial planner and founder of Plenary Wealth. Plenary usually implements the strategy at the beginning of the financial year.

"It's a great way of building up the super balance of a partner on a lower income or with a lower balance, such as a spouse out of the workforce for several years raising children," Cratchley says.

A scheme member is able to split 85 per cent of concessional contributions each year with a partner.

For example, during the 2014-15 financial year, Jack, aged 60, salary-sacrificed $25,000 to his SMSF. The maximum amount that Jack can split with his spouse, Jill, 50, who does not work, is 85 per cent of his concessional contributions up to the concessional cap amount. In this case, the figure is 85 per cent of $25,000, or $21,250, says the SMSF Association.

It does not get Jack out of paying the 15 per cent contributions tax. But in this case it enables Jack and Jill to maximise the amount that could be withdrawn tax-free if either one, or both, stopped work between the ages of 55 and 65.

"We are generally moving into an older spouse's account so they have more benefits to rollover into a pension at 60," Cratchley says.

"Then these assets would be 100 per cent tax-free on the earnings. This would also allow the older spouse to draw a larger pre-retirement pension – which is limited to 10 per cent of the account balance – allowing the couple to salary-sacrifice more, without taking a cash flow hit."

Those aged between 55 and 60 can withdraw only the first $185,000 tax-free.

By having two funds they could withdraw $370,000 tax-free between them.

It is possible to split both this and last year's concessional contributions – but not contributions made before that.

"This is especially important if you are making changes to super arrangements, as you can't split contributions made to a former fund," Cratchley says.

"So if you move your super, you need to split last year's contributions, split the contributions made so far in the current year, then roll over the super and then split the contributions made to the new fund at the start of the next financial year," he says.

Splitting can also be used to gain early access to the super of the spouse who reaches pension age first, which can help preserve accumulated funds as the working partner continues to contribute.

There is no immediate tax or planning advantage from balancing the super accounts of members, according to advisers.

But it might be a strategic move to put large super savings out-of-reach of future cash-strapped federal governments looking for easy revenue sources to balance their books by restricting lump sum withdrawals or putting a special tax on higher balances.

"Balancing a couple's accounts would limit any fallout from future government policy aimed at taxing members with high account balances, or high incomes," Cratchley argues.

More than 20 years after Australia set up compulsory retirement savings, more than four out of five retirees are eligible for a full – or part – pension.

"By splitting contributions to a younger spouse it improves your Centrelink position," AMP financial planner Andrew Heaven of WealthPartners Financial Solutions says.

"It's not an instant fix, but it can be valuable if used as part of a long-term strategic plan for retirement."

Super splitting is done by completing a short form that is usually supplied by the pension provider.

Alternatively, a certified financial adviser should know how it is done and who is eligible.

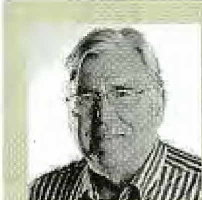
There are several amounts that cannot be split. They include benefits rolled over from another fund and lump sums paid from a foreign superannuation fund.

Keep the romance going by ensuring all's fair in love as well as super.
PHOTO: ISTOCK

Avoid splitting headaches

Certified financial planner Joshua Cratchley says super splitting:

- Is great for couples with a reasonable age difference, say five years
- Can help access age pension entitlements while preserving capital
- Can help fund the insurance premiums of a partner with a low account balance and maximise a couple's personal cash flow
- Can enable a couple to access superannuation benefits tax-free sooner
- Could help balance a spouse's super accounts and limit fallout from future rule changes aimed at taxing members with high account balances or incomes
- Can only split 85 per cent of concessional (pre-tax) contributions
- Can only split the previous financial year's and the current financial year's concessional contributions
- As of August 2015 can split 2014-15 contributions and the contributions received since July 1, 2015
- Cannot split non-concessional (after-tax) contributions
- Cannot split contributions with a spouse who has met a super condition of release and therefore can access superannuation in full; typically this would arise upon retirement or when a spouse turns 65



Veteran *AFR* DIY super columnist John Wasiliev is on indefinite medical leave. Readers wishing to pass on good wishes to John can do so by emailing Debra Cleveland at dcleveland@fairfaxmedia.com.au