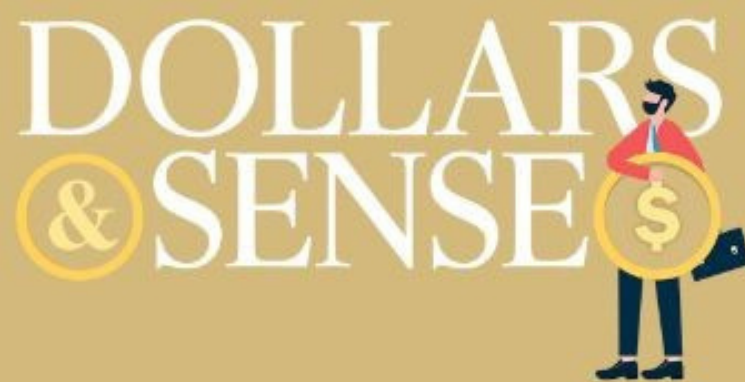




What retirees need to know about property tax



FINANCIAL ADVISOR | JASON FEATHERBY

Welcome to our Dollars & Sense column. While in no way is it formal financial advice, it is a way to stress test your decision-making, to find out potential financial implications before you make your choice, and to discover more about structuring your affairs so that your money works harder for you. Submit your questions to dollarsandsense@theaustralian.com.au.

I will be 67 next year and plan to retire. My superannuation is just under \$500,000.

I have been renting out my family home since 2017. I stopped leasing it in September as I planned to sell the house and buy a house to live in. I'm currently living in my daughter's house.

I estimate my house will achieve \$1.6m at sale. How much CGT tax will I have to pay? My current wage is \$69,000 a year and I was receiving \$800 per week for the lease.

I intend to help my two kids with their deposit after purchasing my own home. How much should I spend on my own house?

Paula, Melbourne

You're about to hit two important milestones when it comes to capital gains tax minimisation and superannuation contributions. While still under 67 and with a super balance under \$500,000 there is a lot we can do to help reduce any tax payable on the sale of your property.

Generally, for the purposes of calculating CGT on the sale of a former principal residence turned investment property, your cost base for tax purposes will be the value of the home in 2017. Let's assume this was \$600,000. When you then sell for \$1.6m, the capital gain is \$1m.

After applying the 50 per cent CGT discount, the taxable gain becomes \$500,000 and this is the amount added to your income, pushing you well into the highest tax bracket.

If sold prior to turning 67 or if you work beyond 67, you can potentially use the catch-up concessional contributions rule. With a superannuation balance under \$500,000, you can contribute more than the standard \$30,000 cap by using unused cap amounts from the past five years.

After age 67 you must meet the work test (40 hours over 30 consecutive days) to make voluntary contributions and claim them as a tax deduction.

Assuming no additional contributions over and above those added by your employer, it is likely you will be able to make a significant "catch-up" contribution from the sale proceeds, saving you significant personal income tax. This is because super contributions are taxed at a much lower rate.

You can confirm your unused contributions via MyGov or through your accountant.

Using the ASFA Retirement Standard, a single homeowner needs about \$52,000 per year for a comfortable retirement, and ASFA estimates a required super balance of \$595,000 to support this lifestyle. Post super contributions you should have met the required super balance to retire comfortably.

Selling your property, contributing to super and paying personal tax should leave you with around \$1.3m. Depending on what you plan to gift the kids, I'd be spending no more than \$1.1m to \$1.2m on a new home.

Is cashing in super after 75 a good strategic move?

I am a 76-year-old retiree, single with no spouse or dependants. I want to avoid potential issues like the superannuation trustees not distributing monies to my chosen beneficiaries, and also to avoid the 17 per cent tax imposed on people who are not related to myself. What are the implications of cashing in superannuation in the later years and how can I avoid any tax implications?

Brian, Brisbane

Withdrawing and recontributing prior to age 75 and/or simply cashing in superannuation in later years is fast becoming one of the most asked about strategic moves for retirees – especially single individuals – to ensure their funds are (a) distributed according to their wishes and (b) to avoid the “super death tax” we currently have in place on the taxable components of their super balances.

First, if your super is paid to your estate upon death, it becomes part of those assets dealt with by your will. This allows your will to direct how the funds are distributed and works most effectively if:

- You’ve made a valid binding death benefit nomination in favour of your estate.
- Your will is up to date and clearly names your intended beneficiaries.

Without these, super fund trustees may exercise their discretion, potentially distributing funds contrary to your wishes.

Secondly, superannuation consists of two components:

- Tax-free component: Usually made up of non-concessional contributions (after-tax money). This portion is not taxed when withdrawn or paid to beneficiaries upon your death.
- Taxable component: Includes employer contributions and salary sacrifice amounts as well as earnings on these over the years. If paid to a non-dependant (e.g. adult children, siblings, friends), this portion is taxed at 17 per cent.

Super left to a dependant (usually a spouse) is not taxed regardless of the components and only becomes a concern when only one member of a couple remains alive, as once single, any remaining taxable component paid to non-dependants becomes taxable.

For those under age 75, a withdrawal and retribution strategy can reduce the taxable component. However, at age 76 this strategy is no longer available to you.

Instead, the best approach is to withdraw the superannuation funds during your lifetime and transfer them to a personal bank account. This removes them from the super environment and avoids death benefit tax.

Before doing this get some advice as super returns are tax-free whereas earnings outside of super are taxable. Depending on your balance, where you plan to invest and your current health, it may be a better option to leave funds where they are, and don’t die suddenly allowing time to withdraw funds when the time comes.

Jason Featherby is co-founder and head of financial advice at Leeuwin Wealth.

The responses provided are general in nature and, while they are prompted by the questions asked, they have been prepared without taking into consideration all relevant circumstances. Before relying on any of the information, please ensure that you consider the appropriateness of the information provided with regard to your objectives, financial situation and needs, and seek independent professional advice.