

Spouse Contributions

What are they and who can make them?

Spouse contributions are contributions made into superannuation on behalf of your spouse. Doing this is a tax-effective way for a couple to boost retirement savings.

To be able to receive spouse contributions into superannuation, your spouse must be under age 65 or if aged between 65 and 70 and at the time the contribution is made the spouse receiving the contribution has already undertaken gainful employment of at least 40 hours in a period of no more than 30 consecutive days in that financial year.. There is no work status requirement for spouses under age 65 to be able to receive superannuation contributions. There is no age restriction on the spouse making the contribution, and there is also no limit to the amount you can contribute on behalf of your spouse. The opportunity to contribute applies to both married and defacto spouses, provided that they live together.

The Benefits

- Spouse contributions can significantly increase your long-term retirement savings. Both you and your spouse will pay tax of only 15% (maximum) on the investment returns of your funds compared to non-superannuation investments that are taxed at your spouse's marginal tax rate. The benefit of investment earnings compounding faster in superannuation will apply to both spouses
- Spouse contributions are undeducted contributions (ie no tax deduction has been claimed for them) and do not attract tax on withdrawal or entry. Earnings made on these funds are subject to lump sum tax, however the first \$123,808 (2004/05 financial year) of earnings may be free of tax.
- By setting up superannuation funds in each of your own names, you effectively double the lump sum tax concessions you can receive. This is because, as a couple, you can each access the above mentioned \$123,808 with no tax being payable, after the age of 55.
- You can qualify for a full tax offset of up to \$540 if your spouse has assessable income less than \$10,800 in the financial year in which you contributed at least \$3,000 on their behalf (or between \$10,800 and \$13,800 for a partial offset). You might then reinvest the tax savings to provide additional super benefits. The person making the contribution for their spouse may claim a offset as per the table below depending on the taxable income of the spouse:

Spouse's income	Contribution amount	You can claim an offset of:
\$10,800 or less	\$0 - \$3,000	18% of contributions
\$10,800 or less	\$3,000 or more	\$540 maximum
\$10,800 - \$13,800	Any amount	18% of contributions up to \$3,000 (minus \$1 for every dollar your spouse earns over \$10,800)
More than \$13,800	Any amount	Nil

- Once you reach retirement age, you both have the option of buying a tax-effective income stream with your superannuation funds. Each income stream will be taxed at your respective individual marginal tax rates, thus providing an income splitting strategy.
- When you both eventually withdraw your money, you can each take out a concessional amount of \$619,223 (the Lump Sum Reasonable Benefit Limit for 2004/05) or \$1,238,440 (as the Pension Reasonable Benefit Limit for 2004/05) in addition to tax-free personal or spouse undeducted contributions.
- Neither the contributing or receiving spouse (as long as the receiving spouse is under age 65) have to be working at the time of contribution.

Considerations

- Once spouse contributions are made, they are preserved (generally until retirement). In order to access spouse contributions, a condition of release must be met. These include retirement, total and permanent disability and financial hardship. There are three definitions of retirement:
 - reaching preservation age (currently age 55) and having ceased an employment arrangement and never intending to work again, or
 - reaching age 60 and ceasing an employment arrangement or
 - reaching age 65.

If the receiving spouse has never worked, that spouse may have to wait until age 65 in order to access their superannuation.
- Defacto couples do not include same sex couples.

Funding your retirement

When retiring, you may each receive an Eligible Termination Payment (ETP) from your superannuation funds. An important decision is whether to take the superannuation benefit as a lump sum or whether to purchase a tax-effective retirement income stream, such as an allocated pension or complying pension. The Government has put in place many incentives for people to purchase income streams, particularly complying pensions.

By rolling over your lump sum to purchase allocated or complying pensions, you defer (in some cases for the rest of your life) paying lump sum tax. Better still, the earnings on the money in your pension account are not taxed.

If the purchase price of your pension is within the applicable Reasonable Benefit Limit (both of which were mentioned above), you will receive a 15% offset on your taxable income payments.

You may receive a portion of your pension payment free of tax. Undeducted contributions, which include spouse contributions, are apportioned over your life expectancy or term of your pension. This amount is known as the deductible or tax-free amount of your pension. The gross annual pension payment minus the deductible amount is the taxable pension payment. This is then taxed at your marginal tax rate, and if applicable a 15% pension offset is applied.

The more spouse contributions you make to an account, the higher the tax-free amount of your pension will be when paid from that account.

Should you have any further queries, in relation to spouse contributions please speak to your financial planner.

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