Financial advisers focus on disability tax strategies

Medicare levy

Sally Patten

Savers will be able to shuffle their financial affairs to avoid paying the increase in the Medicare levy, financial advisers say.

A key plank of Tuesday's budget was the imposition of a 0.5 percentage point rise in the Medicare levy to 2 per cent that will be used to fund the government's disability insurance package, known as DisabilityCare.

The measure will raise a raft of taxes which attract the Medicare levy, experts have warned, particularly relating to superannuation. The penalty for exceeding the annual after-tax, or non-concessional, super contributions tax will rise to 47 per cent from 46.5.

Tax paid on the so-called taxable component of a super death benefit that is paid to adult beneficiaries rises to 17 per cent from 16.5 per cent, while the untaxed component will be taxed at 32 per cent, up from 31.5 per cent.

Individuals in their 50s who withdraw money from super savings will also suffer an increase in tax. Depending on their age, the rate of tax will either rise to 17 per cent or 22 per cent.

Withholding tax on financial investments where no tax file number is provided will rise to 47 per cent from 46.5.

"The increase in the Medicare levy may also improve the tax effectiveness of a number of strategies," noted Colonial First State, the wealth arm of Commonwealth Bank of Australia.

The impost will make it more attractive for savers to make salary sacrifice and personal deductible contributions into super as these will not attract the levy. Salary sacrificed and personal deductible contributions are taxed at 15 per cent, although the rate is due to rise

The impost will make it more attractive for savers to make salary sacrifice payments.

to 30 per cent for individuals who earn more than $300,000 a year. On the other hand, non-concessional super contributions are taxed at an individual's marginal rate, including the Medicare charge.

The introduction of the Medicare levy in July 2014 will make it more attractive for superannuants to wait until they are 60 before they start to draw down their super savings because the penalty of withdrawing money earlier will be greater, noted Colonial.

Super payouts for the individuals over the age of 60 are now tax free.

"[The strategies] include delaying the withdrawal of any taxable component as a superannuation lump sum benefit until after age 60, as the Medicare levy does not apply to these amounts," said Colonial.

The new rules may also affect estate planning strategies. In addition to Medicare-related strategies, advisers are considering schemes to help mitigate measures confirmed in the budget, such as a plan to apply a 15 per cent tax on earnings and capital gains on self funded pensions that generate more than $100,000 of income a year.

Advisers say this will encourage couples to ensure super balances are as even as possible. Under spouse splitting rules, one member of a couple can direct up to 85 per cent of their pretax or concessional contributions to their partner, assuming the couple is either married or in a de facto relationship.

The self-employed can split tax-deductible contributions.

Couples who are still working and making after-tax contributions can use these contributions to even out their balances as much as possible.

Advisers also say that in some cases it will be preferable for investors to hold large assets, such as property, outside super, and delay the start of a pension.