SMSFund's, the $1,600,000 Superannuation Cap and the re-emergence of Insurance Bonds

Over the past 5 years I have encountered a marked change in the manner in which wealthy investors have created their wealth, invested it and now protected it from all and sundry. This may be a result of their own divorce and re-marriage, or that of their adult children but the pattern has been the same. The old adage "what's mine is mine" underpins this and this is now coupled with, "when I die I want it to go this way" and the advisers, Legal and Financial Planning are responding accordingly to satisfy this need. Couple this with a significant rise in life expectancy and good health and the retiree must remember that their retirement may in fact be 20 – 35 years long, if not longer and subsequently require constant review and a long term investment horizon.

With that in mind it is important to remember when much has been written about the Superannuation Cap and its impact on the wealthy that all is not lost. Superannuation remains a highly tax effective investment structure that affords significant estate planning benefits, particularly when a Binding Death Benefit Nomination is used the fund member is effectively able to remove their superannuation monies from their estate or will should they pass away. This is a powerful tool when used correctly and can enable the speedy transfer of funds to a spouse or financial dependant without the need for Probate and other Legal work to be done.

For SMSFund's when you combine this with the use of a Corporate Trustee the fund can continue it's operations without restriction and limitation (assuming of course the correct Legal work has been done).

So, back to the cap. A SuperFund with a balance over $1,600,000 should not be considered a key issue for more than the administrative burden it now creates. Invariably, the revised tax outcome where earnings on the balance above $1,600,000 will continue to be taxed at 15% Income tax and 10% CGT are a pain but they can still be nullified through the effective use of Franking Credits. For the retiree this invariably will be dealt with by a lower level of refunded franking credits when the Tax return is done rather than a payment. For someone still in the accumulation phase who is in excess to the cap, they should reflect on their own Marginal Rate of Income tax and see whether it is above or below 15%. I'd argue that 15% is still better than the alternative.

However the true limiting component of the Cap is that once you are in excess you are unable to make additional non-concessional contributions that would take you further into excess. As such the value of the $100,000 additional contribution, or the bring forward rules is lost.

This money must now find a home and in my view the re-emergence of the Insurance Bond will go a long way to providing a tax effective outcome as any other. We can all expect to see a rise in their use by investors and their promotion by Financial Planners as a viable option to minimise a client's tax outcome. When considering this as an alternative just make sure you are aware that you must remain invested for 10 years for the gain/profits to be tax free in your hands.

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