SELF EMPLOYED SUPER OPTIONS

If you are self employed, it is important for you to understand your superannuation options.

There are some changes in the simpler super reforms in 2007 that may result in tax savings for the self employed

As a general rule if you are self-employed, you are not required by law to contribute to a super fund. If, like some people, your income is a combination of self-employment income and employment income, there is still a compulsory Superannuation Guarantee obligation in respect of your employment income.

A NOTE OF CAUTION
If you are paid as a contractor under a contract that is wholly or principally for your labour, your client will still have to make compulsory super contributions on your behalf as part of the Superannuation Guarantee regime.

If you are self-employed you need to decide whether and to what extent you want to use super as part of your retirement savings' strategy.

Here is a checklist of the some of the super issues you need to consider if you are self-employed:

Self managed superannuation funds

Self managed superannuation funds (SMSFs) continue to be a popular retirement savings' vehicle.

However, having an SMSF is not just about the attractive tax concessions.

Is an SMSF a viable option for me?

You must decide whether an SMSF is right for you. This will involve getting advice about tax and accounting issues, legal matters and financial planning. It pays to bear in mind that:

- your super fund must have sufficient funds invested to meet your retirements needs;
- there is no legally required amount of money that has to be invested in your fund; and
- it's also common sense that your fund should be able to meet your retirement needs so that the set-up and running costs are worthwhile.

Who is responsible for the fund?

You are – if you choose to set up a DIY super fund you (and all other members of the fund) will be a trustee of the fund.

THE BUCK STOPS HERE
Even though you can get advice about setting up a fund and assistance with running it from appropriately qualified professionals, you as a trustee are legally responsible for making sure the fund is correctly structured and meets all regulatory and reporting requirements – the buck stops with you!

Who do I talk to about SMSFs?

It's important to get the right advice from the right person.

Your tax agent:

- can advise you on and help you with all tax matters in relation to your SMSF
- may be able to help with some aspects of setting up the fund
- can help you run it (e.g., prepare accounting records, produce financial statements and prepare and lodge returns)

Your solicitor/legal adviser:

- can help you with any legal matters and advice (e.g., in relation to setting up and running a fund, such as establishing the required trust)

A licensed financial adviser:

- can give you advice about investment products to ensure that your investments and level of contributions meet your retirement needs
- can help you prepare and implement an investment strategy for your fund
- can advise you whether an SMSF or a particular investment product is the right financial decision for you

Super co-contributions

From 1 July 2007, as a self employed person who personally earns business income from running a business as a sole trader, or in partnership, you may now be eligible for some super co-contribution if:

- you make personal super contributions up to $1,000 during the 2007-08 year;
- your total income for the 2007-08 year is less than $58,980; and
- 10% or more of your total income is from eligible employment, running a business or combination of both.

For 2007-08, the super co-contribution:

- is payable up to a maximum amount of $1500 when your assessable income and reportable fringe benefits is $28,980 or less; and
- cuts out altogether when your assessable income and reportable fringe benefits $58,980 or more.

Deductions for your contributions

Before 1 July 2007 a self-employed person who contributed to their super could only claim the first $5,000 and 75% of any amount over $5,000 as a tax deduction – and this was also subject to age-based limits.

The good news is that self employed persons may now be able to claim a full tax deduction for superannuation contributions made from 1 July 2007.

You can now do this for any superannuation contributions you make until you turn 75 as long as you meet certain eligibility criteria.

TIP
Make sure you get advice about whether you can claim a deduction for your superannuation contributions before you make them!

If you do make tax-deductible contributions, it's very important to keep an accurate record of just how much you have contributed.

Don't forget that concessional contributions over the limit of $50,000 per annum (or $100,000 per annum up to 30 June 2012 for people over 50) will effectively be taxed at the top marginal rate plus Medicare levy – that's 46.5% - ouch!!