

Super for freelancers and the self-employed

Many employees in the print, media, entertainment and arts industries are self-employed, freelance or contracting. The aim of this fact sheet is to help you understand how your mode of employment affects your super and tax, and what you can do to maximise your retirement savings.

Topics include:

- Compulsory employer contributions
- About tax
- Contribution caps
- Building your retirement savings
- Tracking your super
- Insurance

Where does superannuation come from?

There are many ways you can contribute to your super. The most common contributions are compulsory employer contributions and voluntary contributions.

If you are an eligible employee under superannuation law, you will receive compulsory contributions from your employer. You can also make voluntary contributions to super, which may be tax deductible, if you meet the definition of "self-employed".



Compulsory employer contributions (Superannuation Guarantee)

All employers are required to make super contributions on behalf of each eligible employee, equivalent to 9% of that employee's income. These contributions are known as the Superannuation Guarantee (SG).

Compulsory employer contributions are not applicable to the self-employed or for employees that fit one of the following exceptions:

- earning less than \$450 (before tax) in a calendar month (from one employer)*
- aged 70 years or over (unless the contribution is mandated by an award or certified agreement)
- aged under 18 years of age and working 30 hours or less a week
- non-residents being paid for work done outside Australia
- covered by bilateral superannuation agreements with other countries
- senior foreign executives holding certain visas or entry permits
- paid to do work of a domestic or private nature for no more than 30 hours per week

* Subject to exception under certain awards and agreements.



Who is eligible for compulsory employer contributions?

You may work under a number of different arrangements in any one financial year and your eligibility for super could change.

Generally, if you are a full-time, part-time or casual employee on a permanent or fixed-term basis, aged between 18 and 69 and you earn \$450 or more in any one calendar month, your employer is required to pay compulsory contributions on your behalf. Employees and contractors are eligible for compulsory employer contributions, while the self-employed and independent contractors are not.

When determining whether or not you are eligible for compulsory employer contributions it's important not to get distracted by your title, instead look at the characteristics of your work arrangements. It's also important to remember that if you work in various kinds of jobs over each financial year some may be eligible for employer contributions and others may not.

Characteristics that suggest you are eligible for compulsory employer super contributions include:

- The employer has a right to determine the way your work is performed.
- The arrangement is for your personal services, that is, you are required to perform the work personally and cannot engage another person to perform the work.
- The employer supplies the tools and equipment and the place of work.
- You are paid according to the amount of time worked and your hours of work are fixed by the employer.
- You are entitled to annual leave, long service leave and sick leave.
- Pay-as-you-go (PAYG) tax is withheld.
- The employer is responsible for workers compensation insurance.

Characteristics that suggest you are NOT eligible for compulsory employer contributions include:

- The employer does not determine the way your work is performed.
- You can delegate the work to another individual or organisation if you wish.
- You supply your own tools and equipment, and the place of work.
- You are paid for a result, not the amount of time worked.
- You decide your own hours of work.
- You are not entitled to annual leave, long-service leave or sick leave.
- Pay-as-you-go (PAYG) tax is not withheld.
- You are responsible for workers compensation insurance.

For help in identifying your eligibility for compulsory employer contributions, phone 1800 640 886 and ask to speak to a Relationship Manager in your area. Relationship Managers are available for workplace visits, individual consultations and workshop presentations.

Case study 1

Alex works as a graphic designer for Exocet Media and decides to become a freelancer.

In his first year out, working from home, he is paid \$20,000 for a project by his former employer, Exocet Media. The agreement he signed before taking the project stated that he was engaged in a contract for his services and did not prescribe how or where the work would be done.

Alex is not paid compulsory employer contributions for this job and decides that he will quote 10% extra next time to allow for a super contribution.

About Tax

Income averaging

Income averaging is an option for a small number of 'special professionals' such as authors, inventors, performing artists, production associates and sportspeople. Income averaging is designed to prevent these professionals from entering into higher tax brackets in a year when their income is above average. Specific conditions must be met to be eligible for income averaging. For more information, visit the Australian Taxation Office (ATO) website at www.ato.gov.au.

Using income averaging, the tax you pay at the end of the financial year is based on an 'average' annual income from your profession over the past five years, rather than your actual income that year. However, any super contributions from an employer are calculated on your actual income.

Note: Income averaging may reduce the effectiveness of salary sacrifice. We recommend discussing your personal situation with your financial adviser before using income averaging.



Tax deductions

You may be able to claim a tax deduction for the voluntary superannuation contributions you make if you are self-employed or substantially self-employed, as defined by the ATO. To be considered substantially self-employed you must earn less than 10% of your income from an employer. Income includes assessable income, reportable fringe benefits (see Case study 2) and reportable employer superannuation contributions.

Deductions are only available for contributions to a complying superannuation fund or retirement savings account. Media Super is a complying superannuation fund. Tax deductions for super contributions can be claimed on your annual tax return. While you can claim a tax deduction for all your super contributions in your tax return, the ATO will apply additional tax if your super contributions exceed the relevant concessional and non-concessional contributions caps (see next page).

Note: You can only use deductions for super contributions to reduce taxable income to nil – you cannot add to or create a loss for your business through contributing.

Case study 2

Cameron is 38 and works half of the year as an employee on various television productions. He received \$20,000 in salary this year from a number of different employers, as well as employer super contributions at the compulsory rate of 9% on this amount.

He also has his own graphic design business and, as a sole trader, he made \$250,000 this year. His total income for the year is \$270,000.

As less than 10% of his income is from an employer, Cameron is considered substantially self-employed and can claim a tax deduction on any contributions he makes to his own super.

How to claim a tax deduction

If you have made super contributions into your Media Super account and wish to claim a tax deduction, you will need to notify us before the earlier of:

- the date when you lodge your tax return for the year the contribution was made (provided it is lodged before the end of the next financial year); and
- the end of the financial year.

You must contact Media Super and request an **ATO Section 290-170 form** to be sent to you. This form details the amount you have paid in super contributions during the year. To claim a tax deduction, you must complete the form, return it to Media Super and receive acknowledgement of the amount from Media Super.

If you operate a company, it is the company that claims full deductibility, so no Section 290-170 form applies. Super contributions made by the company are treated as employer contributions.

- Voluntary contributions are taxed at 15% by your super fund once they receive the Section 290-170 notice. Penalty tax may apply if contributions exceed the contribution caps.
- Contribution tax will be calculated on the amount you are claiming as a tax deduction.

It's important to consider the tax issues relevant to your own super situation. You may be eligible for a tax deduction if you make your own contributions, obtain relief from CGT tax or average out your income over time to maximise the super you receive.

Contribution Caps

There are two types of contribution caps – concessional and non-concessional contributions.

Concessional contributions

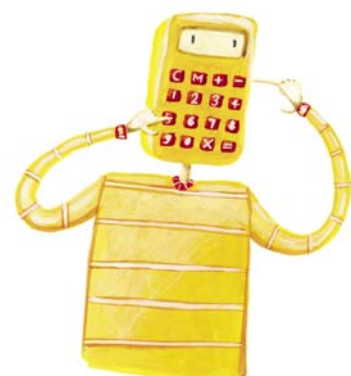
Concessional contributions include:

- Employer contributions
- Salary sacrifice contributions
- Self-employed contributions (for which a tax deduction has been claimed)

You can contribute up to \$25,000* of concessional contributions to your super account each financial year and pay the concessional super tax rate of 15%.

If you are aged 50 or more you can make concessional contributions of up to \$50,000 each year from 1 July 2009 until 30 June 2012. You must be 50 or over in the financial year when the contributions are received by your super fund.

*Applies for the 2009-10 financial year.



Non-concessional contributions

Non-concessional contributions include:

- Voluntary contributions
- Spouse contributions

You can contribute up to \$150,000* in non-concessional contributions to your super account each financial year and pay no tax on the amount.

If you are aged 65 or more, you can make non-concessional contributions up to \$150,000* to your super, provided you meet the work test. If you are under 65, you can make up to \$450,000* of non-concessional contributions to your account in one financial year. If you elect to exceed the \$150,000* cap in any financial year, you are restricted to a total of \$450,000* in non-concessional contributions in the three years comprising that year and the subsequent two financial years.

Media Super is not permitted to receive contributions from you in excess of these caps. For more information, contact the ATO Superannuation Infoline on 131 020 or visit www.ato.gov.au/super.

* Applies for the 2009-10 financial year.

Capital gains tax and contribution cap exemptions for small business

If you are a sole trader or in a partnership operating a small business and are aged under 55, you may be able to receive relief from capital gains tax (CGT) if you sell 'active' assets and roll the capital gains into superannuation.

Proceeds of the sale of assets that qualify for the CGT small business retirement exemption or small business 15-year exemption may be contributed to super and not affect your contribution limits. These proceeds, up to a \$1.1 million lifetime limit*, will not count towards your concessional or non-concessional contribution caps (see Case study 3).

For full details regarding CGT exemptions and eligibility, visit www.ato.gov.au.

You must advise your super fund if you are taking advantage of the CGT exemption to the contribution caps by using the approved ATO form. We recommended that you seek financial advice before making a decision relating to this scheme.

* Applies for the 2009-10 financial year.

What is an 'active' asset?

An active asset is an asset used or held ready for use by the business in the conduct of business (such as plant and machinery), or is an intangible asset inherently connected with the business (such as goodwill).

In order to gain the CGT exemption (if you are aged under 55), the capital gain on the asset eligible for the CGT small business retirement exemption must be contributed to super in one of these ways:

1. Counting towards your \$1.1 million* lifetime exemption from the contribution cap.
2. As a voluntary contribution counting towards your \$150,000* annual cap or \$450,000* three-year cap (if aged under 65).

* Applies for the 2009-10 financial year.

Case study 3

Barry buys a business in 1995 for \$500,000. In 2009 he is aged 50 and sells the same business for \$800,000. Barry has made a capital gain of \$300,000.

In order to take advantage of the capital gains tax exemption, Barry must invest his capital gain of \$300,000 in super and he must also advise his fund that he is taking advantage of the exemption to contribution caps.

Having done this, Barry is left with \$500,000. He seeks financial advice and decides to invest an additional \$200,000 in super as part of his exemption from the contribution caps, and the remaining \$300,000 as a voluntary contribution to super – he doesn't claim a tax deduction for this amount and it counts towards the \$450,000 three-year cap.

The proceeds of the sale of Barry's business have been invested like this:

Contributions exempted from contribution caps: \$500,000

Voluntary non-concessional contributions: \$300,000

He has obtained the CGT tax exemption and his money is now growing in the concessionaly-taxed super environment.

Building your retirement savings

Even if you are not entitled to compulsory employer super contributions, there are a number of effective ways you can boost your super. The case studies in this section show how each strategy works in isolation. You may want to combine two or more of these strategies for your own situation.

For more information on contributions, as well as details of how to contribute and a benefit comparison between salary sacrifice and co-contribution, see our *Topping up your super* fact sheet, available at www.mediasuper.com.au/forms.

Voluntary contributions

Voluntary contributions are contributions that you choose to make out of your after-tax income (take-home pay). If you are self-employed or have periods of self-employment, you may not have compulsory employer contributions made on all of your income. Making your own voluntary contributions can help build your retirement savings (see Case study 4).

Contributions for which you do not claim a deduction attract no further tax, after income tax. Employer contributions and self-employed tax deductible contributions are taxed at 15%. Penalty taxes may apply if your contributions exceed contribution caps. See the About Tax section for details.

By making voluntary contributions you may also be able to take advantage of the Federal Government Co-contribution scheme, which can further boost your super savings.

Case study 4

Ian is 34 and works as an extra for television and film. Ian works part-time in sales work to supplement his income. Ian's average annual income from his work as an extra is \$3,000. He does not receive employer SG contributions for this income, as he does not earn the minimum \$450 per month. Ian has decided to boost his super savings by making voluntary contributions.

When Ian is paid for a job, he contributes 20% of the gross income to his super from his after-tax salary – an average of \$600. He does not claim these contributions as a tax deduction. If he continues to contribute this amount over the next 25 years until he retires, his super savings will be boosted by \$34,101*.

* This example does not take into account tax or fees or the impact of inflation and assumes contributions of \$600 a year and an investment earning rate of 6.25% per annum. The example also does not take into account Federal Government co-contributions.

Government co-contribution

You can boost your super by up to \$1,000[^] each year.

The government co-contribution is a payment made by the Federal Government to the super accounts of low and middle-income earners. The payment is designed to reward those who make an additional contribution to their super, on top of what their employer contributes (see Case study 5).

If you earn less than \$61,920 per year[^] and make a voluntary contribution, you may be eligible for a co-contribution of up to \$1,000[^]. If you are self-employed, you will not be eligible for a co-contribution if you claim a tax deduction for your contributions.

[^]Applies to the 2009-10 financial year. Income includes your assessable income, reportable fringe benefits and reportable employer superannuation contributions.

Case study 5

We left Ian as he made voluntary super contributions of \$600 to his super. As Ian's total income for the year is \$28,000, he is eligible for a Government co-contribution of \$600.

Note: If Ian had contributed \$1,000, he would have received \$1,000 from the Government co-contribution.

Salary sacrifice

Salary sacrifice involves making an agreement with your employer to direct some of your pre-tax salary into your super. A salary sacrifice arrangement can only be put in place with the agreement of the employer and the employee. Salary sacrifice is an option for employees or for self-employed people who operate under a company structure. It is not relevant for self-employed people who are sole-traders or operating in a partnership.

Salary sacrificing into super can offer a number of advantages:

- It lowers your taxable income.
- Contributions up to certain limits will be taxed at the concessional rate (15%) instead of your marginal tax rate.
- It may not substantially reduce your take-home pay.

Case study 6

Sally and Simon own their own production company, Apple Productions. They are both directors of the company and employees. Sally and Simon pay themselves \$40,000 each in annual salary as well as \$3,600 in SG contributions.

Sally and Simon decide to salary sacrifice an extra \$10,000 each into their super accounts. This amount will now be taxed at the 15% contribution tax rate instead of at their individual marginal tax rate of 31.5% (incl. Medicare levy).

Spouse contributions

Spouse contributions are designed to help build super for non-working or low-income partners. If you are married or in a de facto relationship and make contributions on behalf of your spouse, you may be eligible for a tax rebate of up to \$540.

The tax rebate

The spouse making the contribution will receive an 18% tax rebate on contributions of up to \$3,000 per year. The receiving spouse must earn* less than \$10,800 per year. A partial rebate applies if the receiving spouse earns more than \$10,800 per year, up to a maximum of \$13,800 per year. To be eligible, you and your spouse must be living together at the time of making the contributions, however, there is no requirement that you be employed at the time.

* Earnings include assessable income, reportable fringe benefits and reportable employer superannuation contributions.

Age-based contribution rules

There are age-based contribution rules that may affect whether your spouse can receive a super contribution from you:

AGE	RULE
Under 65	No restrictions
65-59	The receiving spouse must have been gainfully employed on at least a part-time basis (at least 40 hours in a consecutive 30-day period in the same financial year that the spouse contribution is made)
70 or over	Cannot receive spouse contributions

Case study 7

Oscar is a journalist and his wife Ella is a former make-up artist who has left work to care for their two young children. Ella still does the occasional freelance job, and earned \$8,000 this financial year.

Oscar is employed full-time and decides to contribute \$3,000 from the sale of some shares to Ella's super to help boost her savings for retirement. At the end of the financial year (after he submits his tax return) he receives a tax rebate of \$540.

Contribution splitting

You may be able to split superannuation with your spouse. Super splitting is only available for concessional contributions. You can split 85% of concessional contributions up to the annual concessional contributions cap. The conditions for super splitting are:

- You must split a minimum of \$1,000.
- Your account balance must not be less than \$5,000 after the split.
- You can make one super splitting application per year.

Please note that the amount transferred to your spouse's super account counts towards your concessional contributions cap.

A spouse is not eligible to receive a super splitting transfer if they are aged 65 or more, or have reached their Preservation age (refer to your *Member Booklet (Product Disclosure Statement)*) and are retired (see Case study 8).

How to split your super

To split contributions you have made to Media Super, phone 1800 640 886 and request a super splitting pack.

The pack will contain a statement showing the concessional contributions we received from you in the applicable financial year and the maximum amount you can split. Complete the form contained in the pack to advise us how you wish to split your super.

Your application to split contributions for a particular financial year must be received before the end of the following financial year. For example, you may apply to split contributions for the year 1 July 2008 to 30 June 2009 any time up to 30 June 2010. However, if you elect to transfer your full benefit to another fund during a financial year, you may request to split contributions made during that financial year at the time of requesting the transfer.



Case study 8

Max is a television producer. He earns a salary of \$95,000 a year. He receives employer super contributions of 9% on this amount.

His wife, Milly, is an actor. She earns an average of \$25,000 a year. This financial year she receives contributions of 10% (according to her employment agreements) on this amount. Under the super splitting rules, Max is able to transfer 85% of his concessional (including employer) super contributions into Milly's account at the end of the financial year. The super they each receive now looks like this:

Max
Salary: \$95,000
Employer SG contributions: \$8,550
85% can be split: \$7,267.50

Max is able to nominate that up to \$7,267.50 of his contributions be split into Milly's super. If he decides to split the maximum, his super will end up with no net gain from his contributions this year (after the 15% contributions tax is deducted). A super split will not reduce the concessional contributions counted towards Max's cap.

Milly
Salary: \$25,000
Employer contributions: \$2,500
Transfer received from Max: \$7,267.50
Total contributions and transfers to her account this financial year: \$9,767.50 (before tax)

Super splitting can be very beneficial for tax purposes at retirement, if current balances are uneven. Max may, for example, have a very large balance, while Milly may have a small balance. This is particularly common for women who are more likely to experience interrupted work patterns.

Note: If Max and Milly were both planning to stop working and begin drawing down on their super after age 60, then there would be little benefit in Max splitting his contributions as Max would pay no tax on lump sum withdrawals or payments from this age.

Tracking your super

If you make your own contributions or receive super from a number of different employers, it can be difficult to keep track of your account. Managing your Media Super account is easy with online account access. It's simple to use and gives you secure access to your account any time.

You can:

- Check your account balance.
- View details of contributions since your last statement.
- Make an investment switch.
- Change beneficiaries.

You will be registered automatically for this service when you join Media Super. If you have forgotten your login details, phone 1800 640 886 for assistance.



Insurance

Superannuation is all about planning for a financially secure retirement. However, there are many circumstances that could affect your financial welfare in the meantime. Have you considered how you and your family would cope with the financial consequences of being unable to work because of illness, injury or even death? Most of us are not in a position to deal with this kind of financial crisis.

Insurance cover can protect you and your family against the financial burden of such a crisis. Media Super offers insurance cover that's tailored to your requirements. It's flexible and provides for people with work patterns and occupations that may not normally be able to obtain insurance cover.

As a Media super member, you can access low-cost insurance cover for:

Death and Total and Permanent Disablement (TPD)

- Pays a lump sum to your beneficiaries or estate if you die.
- Pays a lump sum if you are totally and permanently disabled.
- Pays a lump sum if you are terminally ill.

Income protection

- Replaces a portion of your salary if you are unable to work due to illness or injury.

Paying for insurance cover with Media super is easy – your premiums are simply deducted from your super account balance each month. For information specific to your circumstances on cost, cover amounts and eligibility, phone 1800 640 886 and request a *Member Booklet (Product Disclosure Statement) Part 2*.

Want to know more?

For more information on topics that may be relevant to you, refer to the following fact sheets:

- *Topping up your super*
- *Rolling over*
- *Redundancy*
- *Membership benefits*

We also have a sample salary sacrifice agreement you can use as a guide, when making a salary sacrifice arrangement with an employer. Access the full range at www.mediasuper.com.au/forms.

At Media Super, we are committed to educating our members about super and have a team of superannuation specialists around the country to assist you. Our relationship managers are able to provide you with general superannuation advice at one-on-one consultations in person or over the phone.

We run regular education workshops covering a range of superannuation issues and strategies. Visit www.mediasuper.com.au/workshops for our latest workshop schedule. Where required, we can also tailor presentations for a specific group or workplace.

To speak with a Relationship Manager, phone Media Super on 1800 640 886.



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