Super Changes – Not So Simple!

This year in July, the Australian government's long awaited changes to superannuation will come into effect.

To help you make the most of these changes, and to ensure you know how to protect your assets, we've outlined the key features most likely to affect you.

Concessional (Pre-Tax) Contribution

For those taking advantage of the existing annual cap, it's $30,000 for those under the age of 50, and $35,000 for older contributors.

"Protect your nest egg and make the most of current caps before the July changes."

From 1 July 2017, a new annual cap of $25,000 will apply across the board, regardless of age. While this new arrangement will restrict the yearly amounts members are able to contribute, it's still possible for individuals to maximise contributions in the short term by salary sacrificing to current limits right up until 30 June 2017.

From July 2018, members with less than $500,000 in super benefits can also take advantage of 'catch up contributions' on a rolling five-year basis. This is particularly beneficial for people with irregular income patterns.

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Non-Concessional (After Tax) Contributions

Up until the end of June this year, the annual contribution cap will remain at $180,000. However, from July this will be reduced to $100,000 per year. With significant changes also coming to the operation of the 'bring forward rule', it's important to know where you stand.

How does the 'bring forward rule' currently operate?

Under current bring forward arrangements for non-concessional contributions, if you're aged 64 or under on 1 July of the income year in which the contributions are made, you can access three years of entitlements to non-concessional contributions, regardless of the balance of your super. Once this three-year period comes to an end (and provided you still fall within the age range), you can initiate the bring forward period again.

If you contribute in excess of the annual non-concessional contribution cap in any financial year, the bring forward rule will be automatically triggered for the following two years.

The current annual non-concessional contributions cap for 2016-17 is $180,000, making the three year bring forward cap $540,000 ($180,000 x 3).

How will the bring forward rule change in July 2017, and how will it affect me?

While the current age requirement will remain in place after the July changes, access to the bring forward rule will depend on your super balance at 30 June of the previous financial year. If your total superannuation balance at this time is less than the general transfer balance cap (which is $1.6m in 2017-18), you'll be eligible to make non-concessional contributions up to the cap. However, if your balance is $1.6m or more on 30 June 2017, you won't be able to make any non-concessional contribution in the 2017-18 financial year.

To reduce the impact of this change, if possible you should maximise your potential by making contributions of up to $540,000 before the cap drops to $300,000 on 1 July.

"If you haven't accessed all your bring forward entitlements prior to the changes – there are 'transitional arrangements'!"

If you brought forward your non-concessional contributions cap in 2015-16 or 2016-17, and haven't utilised the full $540,000 cap before 30 June 2017, the remaining amount will be recalculated on 1 July to reflect the new annual cap.

Division 293 Tax

How will my contributions be taxed?
Currently a 15 per cent tax applies on contributions if your assessable income is less than $300,000, and a 30 per cent tax applies for incomes in excess of that threshold. As of 1 July 2017 this threshold will be lowered, and a 30 per cent contribution tax will apply on assessable income of $250,000 or more.

Contribution Eligibility

Currently a tax deduction for personal contributions is limited to people with employment earnings less than 10 per cent of their total assessable income.

As of July this year, the tax deduction for personal contributions will be extended to all, although it will be limited to the concessional contribution cap.

Work Test

The Work test will remain unchanged for anyone aged 65 or older.

$1.6m Cap on Retirement Income Streams (i.e. Pension Accounts)

The $1.6m cap includes all income streams that are account based, reversionary income or defined benefit. Balances over the cap will be treated in the same way as accumulation balances, so if your pension balance exceeds $1.6m you must withdraw the excess as a super lump sum, or transfer it back to the accumulation phase.

CGT Tax Relief

It's important to remember that the $1.6m pension cap can have wide reaching consequences. For example, balances in excess of $1.6m that are returned to accumulation can impact on assets that were previously supporting a tax-free pension, because they will now be subject to capital gains.

The good news is that CGT Relief will minimise the effects of this change by ensuring that only capital growth accrued after 1 July 2017 is taxed. The superannuation fund is deemed to have sold and reacquired the asset on 30 June 2017. If you have an SMSF, it's important to remember that CGT Relief can only be claimed where there is at least one pension in place prior to 9 November 2016. The asset must have been held throughout the period 9 November 2016 to 30 June 2017. CGT Relief applies on an 'asset by asset' basis, and trustees are able to choose which assets they wish to apply the CGT reset to.

If you have assets that are only partially supporting accounts in the accumulation phase, tax will be payable on the proportion of the capital gain made to 30 June 2017. Ordinarily this tax would be paid in the 2016-17 financial year, but with CGT Relief, the tax may be deferred until the asset is sold. An SMSF that chooses CGT Relief must also wait a further 12 months to claim the CGT discount.

Is your pension fund balance in excess of $1.6m? Call us to discuss your options as well as any potential implications of resetting the cost base of your investments.

Transition To Retirement Pension (TTR)

How does my TTR affect my cap?

As of July this year, TTR pensions will lose their tax exempt status on earnings and capital gains. But don't worry, these pensions can still be very useful for members who want to rebalance partner accounts or reduce debt as they approach retirement. One of the great benefits of having a TTR in place before 30 June 2017, is that you'll be able to reset the cost base of assets for CGT purposes.

While the TTR won't impact on the pension transfer cap, once a member receiving a TTR retires or reaches the age of 65, the TTR will become an ordinary account based pension that the Trustee must report to the ATO. From this time the pension *will* count towards the $1.6m transfer cap balance.

We hope we've helped clear up some of the more confusing aspects of the upcoming changes. However, we do understand it's a lot to take in, so please give us a call any time to make an appointment and discuss your particular circumstances and what we can do for you.