**LPR TAYLOR FINANCIAL SERVICES PTY LTD** A.C.N. 128 468 628
Lane Taylor is an Authorised Representative of Dover Financial Advisers Pty Ltd AFSL No 307248

5 SAYER STREET, MIDLAND W.A. 6056
TELEPHONE: (08) 9274 6349 FACSIMILE: (08) 9274 3011
EMAIL: lanet@lprtaylor.com.au
DIRECTOR: Lane Taylor CPA, B.Bus., Acctg/Bus.Law, Grad. Dip. Bus. Law (Curtin) Dip. Fin. Services

## Superannuation and the changes that we face

The dust has now settled on the changes that were proposed in the May 2016 Budget. Some of the changes got through the Parliamentary process and some did not.

We have set out, in brief, the changes that did or will receive Royal Assent. The bulk of the changes will commence from the 1st July 2017, thus in some cases, one has the remainder of the 2017 financial year in which to realign their affairs.

The Federal Government in some cases gave, and in some cases took. However, it is fair to conclude that in the end the goal of adding to the pool of tax revenue and not to subtract will be achieved.

We have discussed in the first part of this paper revenue/concession items that the Federal Government made more generous. In the second part (main part) we discuss those changes that clearly favour revenue raising, and finally, in the third part we highlight some matters that may warrant your attention before the 30th June 2017.

## First Part: What the Federal Treasury gave up (i.e., gave to us)

### Personal Deductions and the 10% Rule

A long-standing rule has been that one could not claim a tax deduction for personal contributions where salary and wages made up more than 10% of one's Taxable Income. From the 1st July 2017 that is set to change.

The bottom line now is; if your employer is contributing superannuation (or should be), then you cannot claim those personal contributions that you make as an individual.

From the 1st July 2017 the restriction will be removed, and to the all-encompassing cap of $25,000, the personal contributions can be claimed.

### Low Income Super Tax Offset Contribution (LISTO)

The name has been changed just a touch, but the nature of the contribution is the same. From the 1st July 2017, eligible individuals, with an Adjusted Taxable Income up to $37,000 will receive a LISTO (Government) Contribution to their super fund. The LISTO contribution will be equal to 15% of their total concessional (before tax) Super contribution for an income year but capped at $500.

### Better deal for the Spouse Tax Offset

We remind you that currently, an individual can claim a tax offset up to a maximum of $540 for a contribution you make to your Spouse's Eligible Superfund Fund; providing your spouse's Assessable Income (plus Fringe Benefits and Employer contributions) are between $10,800 and $13,800. This quite low-income range has prevented many from claiming the offset.

So the Government has legislated to extended the income range somewhat to $37,000 and $40,000. So what will happen is that if your spouse for whom you contribute has an income below $37,000, you will be able to claim the whole $540. If her/his adjusted income is greater than $37,000, then the $540 will be reduced such that none of the $540 will be receivable if the spouse's income exceeds $40,000.

**Right to carry forward the Concessional Cap**

From the 1st July 2017, the Concessional contribution cap for all ages will be $25,000 per year. Currently, if you do not claim all of the Cap in a particular year, the unused portion is lost. That outcome will change from the 1st July 2017 in that (providing your accumulated member's balance is below $500,000 ) you will be able to carry forward the unused portion of the contribution caps up to 5 years on a rolling basis. This is a great change especially for females who often step back from the workforce to have and raise children.

**Second Part: Then there is the bad news (i.e., what Government took away)**

As the government is apt to do; they have given with one hand and will be taking with the other!

**The $1.6m Cap for Members in the Pension phase**

Currently, if you are in or if you enter Pension phase, the income earned from the capital/assets within the fund that is paying the pension is not subject to the 15% tax. Further, when you receive the pension money from the fund, that pension income is not taxable in your hands.

From the 1st July 2017 that cosy world will change in that, only the earnings on the member's capital balance that is below $1.6m will continue to receive the favourable treatment of having no tax on its earnings. For any earnings on the balance greater than $1.6m, there will be a tax of 15% payable by the Superfund itself.

For clarity, the after-tax income which will come out in the form of a member's pension will not be subject to tax in the hands of the member.

Also, it is worth noting that if your Member's balance within the fund is now or does grow over the $1.6m, the sky does not fall in. If the fund is in accumulation mode, the earnings will be (as they are now) simply taxed at 15%. If you are in pension mode and the balance grows over the $1.6m, as we discussed above the earnings on the capital over $1.6m are simply taxed at 15%.

**Division 293: Safe Haven threshold reduced from $300K to $250K**

Some of you in the past would have received a special letter from Big Bertha, the ATO computer requesting an extra 15% tax on the contributions that have been made to your Superannuation fund.

Currently, the level of income that triggers this additional tax of 15% is $300,000. (i.e., making a total "contribution tax" of 30%). From the 1st July 2017, the triggering level will be lowered to $250,000. (Yes the holes in the tax net just got smaller)

**Concessional contribution: we will all be equal but will be able to carry forward unused portion**

Currently (to the 30th June 2017) the Concessional Contribution cap for those over 50 years of age is $35,000, and for the younger folk under age 50, it is $30,000. From the 1st July 2017, the Concessional Cap will be $25,000 for all ages.

Trying to be positive; we remind you that over a five year period you can drag the unused amounts of the Concessional Cap forward. The outcome is that in some years you will be able to contribute more that $25,000 and receive your tax deduction (but the trap is that your member's balance must be less that $500,000.)

**Non-concessional ( non-deductible Contributions)**

It is the non-concessional contributions that do the heavy lifting in building superannuation balances. They do not attract the Contribution Tax of 15% nor are they tax deductible to the contributor.

The current non-concessional contribution cap is now $180k per year. From the 1st July 2017, the $180K cap will reduce to $100k.

But there is more;

The $1.6m Cap plays a part in your current decision making concerning the contribution cap. Put simply, after the 1st July 2017; you cannot make Non-concessional contributions to your fund where your member's balance is greater than or equal to $1.6M.

If you are under 65 and your balance so allows (i.e., under the $1.6m), you will be able to group and contribute some part of three lots of $100,000 in one year. (see Table at page 4).

**<u>Transition to Retirement Income Streams (Pensions)</u>**

As from the 1st July 2017 you will see some of the luster come off of the Transition to Retirement Pensions (TTRP). Those of you who have such a pension in place will be aware that a TTRP allows you (where you are aged between 55 and 65) to access your super in the form of a restricted pension without the need to fully retire.

The pension is attractive because you can salary sacrifice into your super fund pretax wages and pay only the 15% "Contribution Tax." On the other hand, you can draw a tax-free pension and the earnings within the fund that produce that pension, are also free of tax.

The transition pension survived the May 2016 Budget but was not totally unscathed, rather income earned within the pension component (like the accumulation component) will be subject to tax at 15% where it was once tax-free.

In any event from the 1st July 2017, with the lower $25,000 Concessional Cap, it is very important that the levels of contribution (from all sources) be reviewed to ensure contributions are reset so that the total is kept under the new ceiling.

**<u>Third Part: What to do between now and the 30th June 2017?</u>**

As with most tax law changes, governments hate the label of being a retrospective lawmaker. As a consequence, to soften the blow, for the most part the introduction of the changes are delayed until the 1st July 2017.

Now that you know which changes made it through the legislative gauntlet, you need to think about what should/could be done (if anything) before the 30th June 2017. We have set out some of our thoughts below:

**What to do with the Transition to Retirement Pension (TTRP)**

As a reminder, a **TTRP** involves (among other attributes) your commencing a pension from your superfund before retirement. At the same time as you are drawing a pension from the Pension compartment of the fund you are allowed to continue to make deductible contributions to the Accumulation compartment of the fund.

What now exists are the benefits where you are getting a tax deduction for contributions to the fund, as well as the pension that you are drawing is not taxable in your hands. As a further sweetener, currently, the earnings that produce the income from within the Superfund are not taxable as they are being earned by the fund.

As from the 1st July 2017, the sweeter of non-taxable earnings goes sour in that there will be a change to TTRP that will see earnings by the super fund that produce the pension (although not taxable in the Pensioner's hands) to be taxed to the Trustee at 15%.

Again what the change means is that, although the pension will still be non-taxable in the Members hands; it will be out of earnings within the Superfund that have been taxed at the rate of 15%.

For you to think about: Unless you are using the TTRP to meet your living needs you may consider ceasing the TTRP as from the 30th June 2017 and rather leaving the money in the fund to continue to grow your balance for ultimate retirement.

**Maximising the Concessional (Deductible) Contributions to the Limit of the Cap**

Currently, the Concessional Cap is $35,000 if you are aged greater than 50 and $30,000 if you are aged less than 50.

As from the 1st July 2017, we will all be limited to a maximum cap of $25,000. You may wish to ensure that for the year ended 30th June 2017 you fully utilise the existing caps.

**Using your full Concessional Cap to $180,000**

Remembering that from the 1st July 2017 there will be a reduction of the Non-concessional Cap from $180,000 p.a. to $100,000 p.a.

Keeping it simple for now (by ignoring the "bring forward rules") you may wish to ensure that you maximise the contribution to the full $180,000 for the year ended 30th June 2017.

**Maximising the Non-concession Contributions**

Just a reminder that after the 1st July 2017 you will be prevented from adding non-concessional contributions to your Member's balance, that if you did, would cause your Member's balance to exceed $1.6m.

So before the 1st July 2017, if you are under age 65, you have a once in a lifetime opportunity to make a non-concessional contribution into your fund even if your balance following the contribution will exceed $1.6m.

Again the catch is that from the 1st July 2017 the earnings on your funds within the member's balance exceeding $1.6m (even in Pension mode) are subject to tax at 15%.

**Bringing forwards the Non-concessional Caps**

As of the 1st July 2017, the non-concessional cap will reduce from $180,000 per annum to $100,000 per annum. The three-year contribution grouping together will still be possible, but the sums will be for a total of $300,000 and not $540,000. (and where your balance is already $1.6m you cannot add any non-concessional contributions)

Although the $1.6m is a red light, there is also an orange light when your balance reaches $1.3m. As illustrated in the following table, from the 1st July 2017, a member will be able to bring forward non-concessional contributions in multiples of $100,000 until the $1.6m balance is reached.

| Your Superannuation Balance | Contribution and bring forwards available |
|---|---|
| Less than $1.3 million | 3 years ($300,000) |
| $1.3- <$1.4 million | 3 years ($300,000) |
| $1.4- <$1.5 million | 2 years ($200,000) |
| $1.5- <$1.6 million | 1 year ($100,000) |
| $1.6 million | Nil |

Looking Post 1st July 2017; As an example, if Mr Turnbull had a balance of $1.55m in his super as 1st July 2017 he could contribute once off $100,000 which would acceptably take him over the $1.6m.

**Pre 1st July 2017** a one off opportunity now exists to increase your balance above the $1.6m. Illustrating by example; take Mr Abbott who is now 55 years old with a super balance of $1.4m. Mr Abbott has never triggered the brought forward rules ( i.e., never grouped three years together). If done before the 1st July 2017, Mr Abbott can contribute $540k (i.e., $180k X 3 ) into his super

fund. (even though that will take his balance over the $1.6m)

**Conclusion**

The changes that the current Government made to superannuation as part of the May 2016 Budget were intended to add to consolidated revenue and not detract from it. The objective at least in the short term will be achieved.

Regardless of the changes, superannuation with its tax deduction for contributions, only 15% tax on revenue and for the bulk, no tax on pension earnings, is still a great way to accumulate retirement savings and to feed out those savings during one's retirement.

Between now and June 2017 we will revisit some of these matters again as well as some further matters. For those of you who have a SMSF with us, we will visit each fund specifically and advise if we think anything needs to be done before the 30th June 2017.

If you have any question, please feel free to contact me.

For those of you who have made it through this Superannuation Newsletter well done.

Lane P.R. Taylor CPA
Authorised Representative of Dover Financial Advisers Pty Ltd

9th January 2017

Disclaimer: This is general advice only and does not take into account your personal financial circumstances, needs, and objectives. Before making any decisions or taking any actions based on this document, please contact us.