BWR Accountants & Advisers

Superannuation Newsletter June 2016

Contents:

Proposed Changes to superannuation as announced on Budget night

The 2016-17 Federal Budget announced on 3 May 2016 reported a number of dramatic changes to the area of Superannuation. While these changes are not yet law and may change depending on who is elected in the Federal Election you should take the announcement into consideration. Some of the changes in the budget (if made law) take effect from budget night. The areas to be mindful of include:

A $500,000 lifetime non-concessional contributions cap from Budget night

The current system of annual non-concessional contributions of up to $180,000 per year (or $540,000 every three years for individuals aged under 65), will be replaced with this new lifetime cap. The lifetime cap will take into account all non-concessional (after tax) contributions made into your fund(s) on or after 1 July 2007 and will commence at 7.30pm on 3 May 2016. Contributions made before budget night will not result in excess contributions provided they are within the contribution limits prior to budget night. Excess contributions made after budget night will need to be removed or will be subject to penalty tax.

A reduction in the concessional (taxable) contribution cap

Under the Coalition's policy the concessional contributions cap will be limited to $25,000 per annum from 1 July 2017. The current concessional contribution caps are detailed over the page.

The removal of the tax exemption on earnings supporting Transition to Retirement Income Streams (TRIS) from 1 July 2017

Currently the assets supporting your TRIS Pension are exempt from income tax within the fund, however if you are receiving a TRIS Pension on 1 July 2017, it is proposed that the earnings from the assets supporting your TRIS will be taxed within the fund.

Tax free super balances capped at $1.6 million from 1 July 2017

The Coalition's policy from 1 July 2017 is to introduce a $1.6 million cap on the amount that can be transferred into a retirement phase (pension) account for new plus existing pensions. Earnings on amounts in your pension account will continue to be tax-free. If the monies in your fund pension account exceeds $1.6 million on 1 July 2017, the assets above $1.6 million will either need to be transferred to an accumulation account and the earnings taxed at 15% or you can withdraw the excess from the fund.

Importantly you have a year to plan what you will do before these changes come into play.

Super contributions tax on high income earners

At present, if an individual has combined income and super contributions above $300,000, the concessional super contributions above the limit are taxed an additional 15%. The threshold is proposed to reduce to $250,000 from 1 July 2017.

Restrictions on personal super contribution deductions eased

Currently an income tax deduction for **personal** superannuation contributions is only available to people who earn less than 10% of their income from salary and wages, commonly called the '10% rule'.

If legislated, from 1 July 2017 this rule will be removed and individuals up the age of 75 irrespective of what their level of employment is will be eligible to claim an income tax deduction for personal superannuation contributions paid into an eligible super fund. These amounts will count towards the individual's concessional contributions cap and be subject to 15% tax.

Removal of the Work Test

Currently, people aged 65 to 74 are required to meet the work test (defined over page) in order to make super contributions (other than mandated employer super contributions paid under an industrial award), From **1 July 2017** it is proposed that the work test requirement be removed.

Just remember the above changes need to be legislated before they come into affect.

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Superannuation Contribution Limits

Concessional (taxable) contribution limits	2015/16
Under the age of 50 years	$30,000
Turning 50 (or over) to 74 years in 2015/16 (When between the ages of 65 to 74 years you must first meet the work test)	$35,000

Concessional (taxable) contribution limits	2016/17
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Concessional contributions include amounts made as salary sacrifice, Superannuation Guarantee or other personal deductible contributions.

For the 2015/16 and 2016/17 financial years, members older than 65, will need to first meet the **work test** to contribute personally to super in most cases. You will need to work for at least 40 hours during 30 consecutive days at any time during the financial year prior to making concessional (tax deductible) and non-concessional (after tax) contributions to super. The work test restriction as mentioned on page 1 is proposed to be removed from 1 July 2017.

If you are over 75 years you can not make personal super contributions.

Non-Concessional (after tax) contributions

Subject to the announcements on budget night (as detailed on page 1) the maximum personal after tax contribution is $180,000 for the 2015/16 year. The 3 year bring forward rules are also still applicable but keep in mind that if legislated, the non-concessional limits will be replaced with a lifetime cap of $500,000 from budget night and will be retrospective back to **1 July 2007**.

Financial year end requirements

As the end of the financial year is fast approaching, now is the time to ensure your self managed super fund (SMSF) is in order. Listed below are 5 areas you should consider/act upon prior to 30 June.

1. Super Contributions, if you intend to make a contribution into your super fund, ensure the contributions are received by your fund on or before 30 June 2016 in order for it to be counted in the 2015/2016 financial year. If you are making contributions by electronic funds transfer (EFT) please allow sufficient time for the contribution to be credited into your SMSF's bank account. The contribution limits are listed above.

2. Investment strategy, review your investment strategy to ensure it continues to reflect the purpose and circumstances of your fund and its members. A written update is needed each year.

3. Pensions, if you are in pension phase please ensure you have withdrawn funds between your minimum and maximum amounts as required by the SIS legislation, otherwise severe tax penalties may result. For tax purposes the ATO regards a pension as a series of payments, therefore we recommend your annual pension should be paid as a minimum in two payments.

4. Property and rental income valuation/appraisal, it is an ATO requirement that **all assets** including property held in a SMSF be revalued to market value each year. This can be achieved by organising a market valuation or appraisal. Reference to the rental income received should also be detailed to confirm the rent received is at a commercial arm's length rate.

5. Lease agreements, if applicable please check your lease agreement is still current. If it has expired and there is an option to renew the lease agreement, you need to provide a minute/letter stating that the option to renew has been taken up bearing in mind that you need to ensure the rental charge is at market value. If there's no option to renew, a new lease agreement will be required.

Top 5 common mistakes

Listed below are some of the most common mistakes you should be careful not to make. Understanding and avoiding the following five traps will help to ensure you don't fall foul of the super laws which could result in an ATO contravention and penalty taxes.

1. Loan to member/financial assistance, don't mistakenly think your SMSF bank account monies are yours to own and access whenever you wish.

2. In-house assets, these are transactions involving related businesses of a member. In-house assets can only account for no more than 5% of the value of your SMSF. Beware this is a complicated area and you should check the super rules first before making any related party transactions.

3. Separation of assets, you need to ensure you keep all of your SMSF assets separate from your personal assets.

4. Sole purpose, a breach of the sole purpose rule essentially occurs whenever a member receives a benefit from their super fund prior to being eligible (or would never be eligible). A prime example would be buying a rental property in a SMSF and using it as a "holiday home".

5. Administrative type contraventions, poor record keeping and not responding to the request for provision of information to your accountant or auditor within the required amount of time.