BWR Accountants & Advisers

Superannuation Newsletter April 2017

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Did you know ??

There are free online courses to help SMSF trustees run their super funds.

New Superannuation laws and recent changes

Since the 2016/2017 Budget was announced there have been a number of significant changes (that are now law) to the area of Superannuation. The main areas to note **commence from 1 July 2017** as follows:

- Introduction of a transfer balance cap of $1.6 million for pension phase accounts
- Transition to Retirement Income Streams (TRIS) earnings no longer exempt from income tax
- Reduction of the concessional (taxable) contributions cap to $25,000 per annum
- Lowering of the non-concessional (after tax) contributions cap to $100,000 per annum
- Reduction of the Division 293 income threshold from $300,000 to $250,000
- Removal of the 10% Rule for personal taxable contributions
- Carry-forward concessional contributions of unused caps over five years of members with a super balance under $500,000 from 1 July 2018

What you can do before the 30 June 2017

Per the ATO's guidance:

Situation	Action
If you want to make extra **concessional** (before tax) contributions	• Check what concessional contributions have been made to all your super funds from 1 July 2016. • Estimate the amount of employer contributions that will be made for you before 30 June 2017 and how much you are contributing through salary sacrifice. • Arrange for the additional concessional contributions, up to your age cap, to be paid to your super account before 30 June 2017.
If You want to make extra **non-concessional** (after tax) contributions	• Make sure you do not exceed your annual 2016/17 non-concessional contributions cap of $180,000. • You can contribute up to your annual non-concessional cap amount, including any bring-forward of caps you have not used. For example, you may be able to contribute up to $540,000 before the cap changes and the bring-forward arrangements take effect. • Check any requirements for your age and ensure you have not already triggered the bring-forward arrangements in the last two years. • Make sure your contribution is received by your super fund before 30 June 2017.

The transfer balance cap of $1.6 million for pension phase accounts - 1 July 2017

The transfer balance cap is the limit on how much super you can transfer from your accumulation super account(s) to tax-free 'retirement phase' account(s) to receive your pension income. This limit is known as the 'transfer balance cap'. The cap relates to the amount you transfer and hold in retirement phase accounts. There is no limit on the amount of money you can have in your accumulation super account(s).

The transfer balance cap will start at $1.6 million, and will be indexed in line with the consumer price index (CPI), rounded down to the nearest $100,000.

Any retirement phase income streams commenced before 1 July 2017 will be counted towards the transfer balance cap on 1 July 2017. New pension accounts (commenced from 1 July 2017) will be counted towards the transfer balance cap when they commence. If your pension account(s) grow over time (through investment earnings) to more than $1.6 million, you won't exceed your cap. If your pension account(s) go down over time, you can't 'top it up' if you have already used your cap. If you exceed your transfer balance cap, you may have to remove the excess from one or more retirement phase income streams, and pay tax on notional earnings related to that excess.

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What counts towards your cap?

If you have more than one super pension account in the retirement phase, the cap applies to the combined amount in all of those pension accounts.

That is the value of other pensions or annuities must also be counted towards your cap – for example:

- a super pension you are receiving, or start to receive, from a deceased spouse's super account
- pension income you are receiving from a former spouse's super pension as part of a family court settlement.

Transition-to-retirement income streams will not count towards your transfer balance cap. From 1 July 2017, a fund will no longer receive a tax exemption for earnings on assets supporting these income streams.

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Superannuation Contribution Caps

Contribution type	Cap amount
Concessional (before tax) Contributions Cap	As concessional contributions are paid before tax is applied, it means that your super fund pays tax on the contributions at 15%. • The **2015/16 year concessional cap** is $30,000 for people under 50 years of age and $35,000 for those aged over 50 years. Remember the work test still applies if you are between 65 to 74 years. • **From 1 July 2017**, the concessional contributions cap is **$25,000 for everyone**. If you are 75 years or older you can only make mandated employer contributions.
Non-concessional (after tax) contributions Cap	The non-concessional (after tax) contributions cap is changing. • The **non-concessional cap** for the **2015/16** year is **$180,000.** • **From 1 July 2017** the annual non-concessional contribution cap will **reduce to $100,000 per year.** Your non-concessional cap will be nil for a financial year if you have a total superannuation balance greater than or equal to the general transfer balance cap ($1.6 million for 2017/18) at the end of 30 June of the previous financial year. For individuals aged between 65 and 74 years old, the work test must be met before any contribution is made. If you are 75 years or older you can not make personal non-concessional super contributions.

Non-concessional contributions and the bring-forward arrangements

If you are under 65 years, you may make non-concessional contributions of up to three times the annual non-concessional contributions cap in a single year by bringing forward your non-concessional contributions cap for a two or three-year period. If eligible, when you make contributions greater than the annual cap, you automatically gain access to future-year caps.

From 1 July 2017, the non-concessional contributions cap amount that you can bring forward, and whether you have a two or three-year bring-forward period, will depend on your total superannuation balance at the end of 30 June of the previous financial year. Please contact our office to discuss your bring-forward cap amount if you wish to take advantage of the bring-forward rules. These rules are complex and you need to check them carefully to avoid triggering possible excess contributions tax.

Other changes that may affect you include:

Super contributions tax on high income earners (Division 293 tax)

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%. From 1 July 2017 the combined income and super contributions threshold is reducing from $300,000 to $250,000.

Work test to remain for those aged between 65 to 74 years

The work test will remain going forward. There was discussion that this may be abolished but it's here to stay. The work test must be met for members between the ages of 65 and 74 years who wish to contribute personally into super. To meet the work test you will need to work for at least 40 hours during 30 consecutive days at any time during the financial year before making any concessional (tax deductible) and non-concessional (after tax) contributions to super.

Removal of the 10% Rule

There is good news if you are partially self-employed and partially a wage earner. Currently, to claim a tax deduction for your super contributions you need to earn less than 10% of your income from salary or wages. From 1 July 2017, the 10% rule will be abolished.

Tax exemption no longer on earnings supporting Transition to Retirement Income Streams (TRIS)

Transition to retirement income streams (TRIS) are currently available to assist members to gradually move to retirement by accessing a limited amount of super. Currently, where a member receives a TRIS, the fund receives tax-free earnings on the super assets that support it.

From 1 July 2017, the government is removing the tax-exempt status of earnings from assets that support a TRIS. Earnings from assets supporting a TRIS will be taxed at 15% regardless of the date the TRIS commenced. The intent of this change is to ensure that TRIS are not accessed primarily for tax purposes but for supporting members who remain in the workforce.

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