Superannuation changes and how they affect you

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Agenda

- What are the changes?
- How will these changes impact you?
- What strategies and opportunities are available now and after 1 July 2017?

Superannuation Reforms

“A more sustainable superannuation system”

- Reforms have now become law
- 1 July 2017 start date for most changes
- Is super still worthwhile?

What are the changes?

Concessional contributions

Contributions made to super before tax deducted

Examples of concessional contributions
Compulsory Super Guarantee Contributions (ie 9.5%)
Salary sacrifice
Personal contributions where tax deduction claimed

Changes to concessional contributions

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Concessional cap

Additional 15% Contributions Tax

Deduction for personal contributions

From 1 July 2018:

Ability to carry forward unused cap for rolling 5 year period if super balance less than $500,000

ater
pa

Now:
Only self-employed/retired can claim

1 July 2017:
$25,000 pa for everyone

1 July 2017:
Income greater than $250,000 pa

1 July 2017:
Everyone can claim deduction irrespective of employment

Concessional contribution opportunities

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- Make the most of the higher concessional cap while available.
- Review salary sacrifice arrangements.
- Are there better alternatives if 30% tax rate applies to contributions?
- Defined benefit members will now have “notional” contributions counted towards cap – will this result in an excess?
- If your employer restricts ability to salary sacrifice, will now be able to claim a tax deduction for personal contributions.
- Ability to carry forward unused concessional cap will help if break in employment or in years of higher income.

Case Study: carry forward unused cap

Tom has $300,000 in superannuation and makes the following concessional contributions from 1 July 2018:

Year	Cap available	Concessional Contribution Made	Unused Cap
2018/19	$25,000	$10,000	$15,000
2019/20	$40,000 ($25,000 + $15,000)	$10,000	$30,000
2020/21	$55,000 ($25,000 + $30,000)	$55,000	$0

Non-concessional contributions

Contributions made to super after tax deducted

Examples of non-concessional contributions
Personal contributions from savings
Spouse contributions
Tax free part of overseas super transfers
Excess concessional contributions

Changes to non-concessional contributions

Non-concessional cap

Now:

$180,000 pa or up to $54

But only if total super/pensions is less than $1.6m

1 July 2017:

$100,000 pa or up to $300,000 if under 65

Non-concessional contribution opportunities

- Make the most of the higher cap while available - $540,000 before 1 July 2017.
- Those with super balances exceeding $1.6m, last opportunity to make non-concessional contributions.
- Couples look to even up super balances - spouse contributions and super splitting.
- Consider the “recontribution” strategy

Case Study: Recontribution strategy

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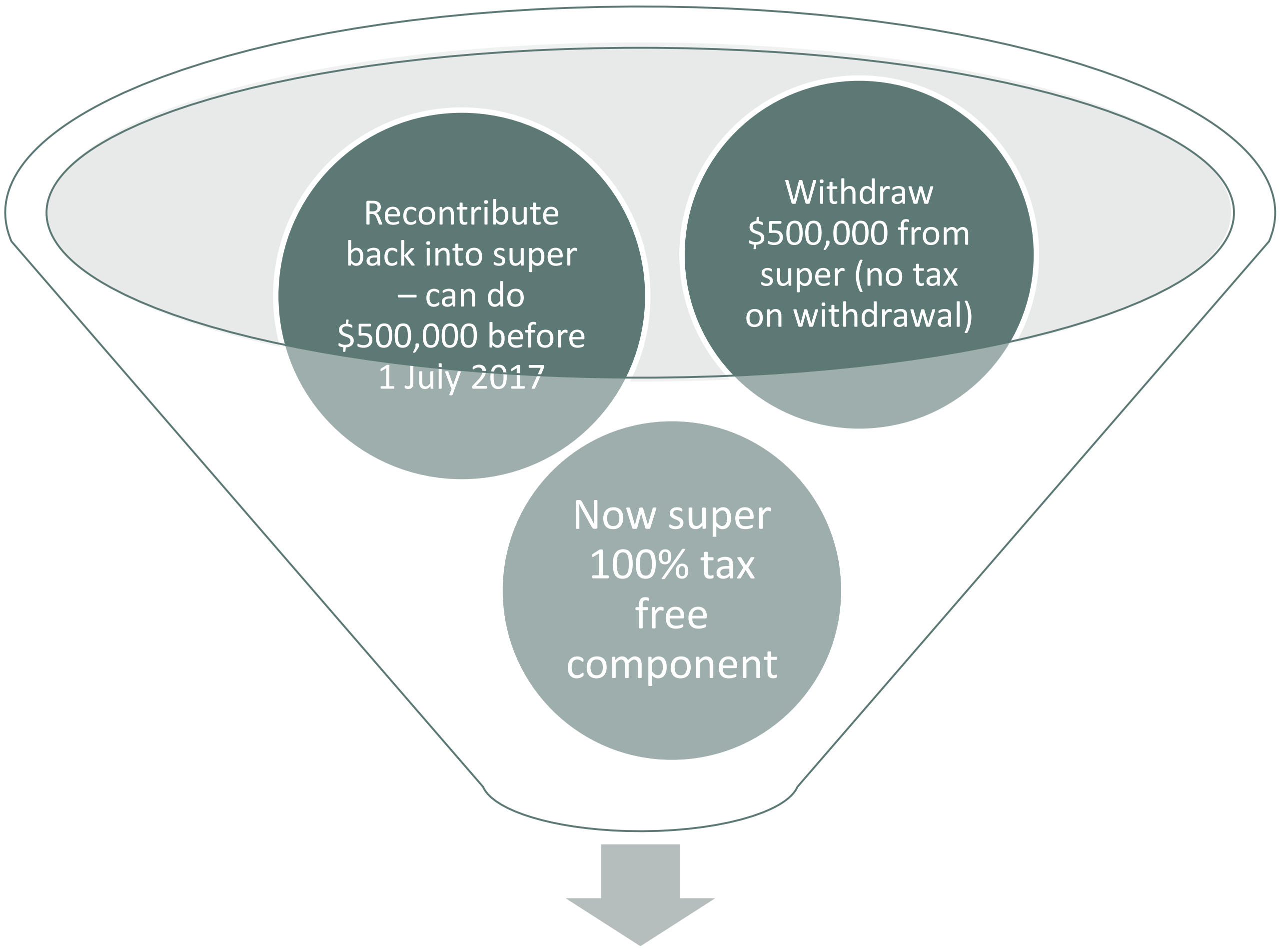
- Blanche is 60 and has $500,000 in super (all taxable component).

- She is a widow with 2 adult children.

How can Blanche help her adult children minimise tax at the time of her death?

If she does nothing, the death benefit paid from her super fund will be subject to 15% tax plus Medicare levy in the hands of her adult children.

Case Study: Recontribution strategy



Tax saving of **$85,000** when Blanche's super paid to kids (assuming $500,000 balance)

$1.6 million cap on transfers to super pension

From 1 July 2017

$2,000,000 superannuation at retirement

$1,600,000 pension where earnings tax free

$400,000 remains in super where 15% tax

$1.6 million cap on transfers to pension

- The cap will be indexed with CPI in $100,000 increments
- If more than $1.6m at 1 July 2017 - **<u>must</u>** transfer excess back to super account or withdraw
- If pension balance less than $1.6m at 1 July 2017 however account grows to more than cap - that’s OK
- Earnings tax of 15% within super environment still favourable for many – don’t automatically withdraw from super

Case Study: $1.6 million transfer cap

Doug has $1.8m super balance on 1 July 2017 → Transfers $1.6m to pension → Leaves $200,000 in super

12 months later → Doug's pension valued at $1.75m → That's allowed – doesn't have to transfer excess back to super

2 years later → Transfer cap indexed to $1.7m → Doug CANNOT transfer extra to pension as already used cap

Transition to retirement pensions

A transition to retirement pension pays you an income from your super before you retire.

Changes to transition to retirement pensions - 1 July 2017

- Earnings within TTR pensions to be taxed at 15% (currently 0%)
- Existing TTR pensions will be affected
- Tax on pension payments from TTR pensions unchanged

TIP: Essential for all TTR clients to review their position – especially with reduction in concessional cap to $25,000 and increased tax on earnings. Is the strategy still worthwhile?

Tax offsets

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Spouse Contributions Tax Offset

- Spouse income up from $10,800pa to $37,000pa and still eligible for maximum $540 tax offset
- No tax offset where spouse income more than $40,000
- Spouse must still meet the work test between 65 and 70

Low Income Super Tax Offset

- Low Income Super Tax Offset of a maximum of $500 to apply from 1 July 2017
- Effectively replacing the Low Income Super Contribution which will cease on 1 July 2017
- Eligible for those with an adjustable taxable income of less than $37,000

Questions