GUIDE TO THE SUPER REFORMS

What they could mean for you in 2017 and beyond.

The impact of the super changes is likely to be positive or neutral for most people and there may be opportunities to grow your super and retire with more.

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Important information

The information and strategies provided are based on our interpretation of superannuation, social security, aged care and taxation laws as at 1 January 2017. Because the laws are complex and change frequently, you should obtain advice specific to your own personal circumstances, financial needs and investment objectives before you decide to implement any of these strategies. If you wish to rely on the general tax information contained in this guide to determine your personal tax obligations, we recommend that you seek professional advice from a registered tax agent.

SUPER'S STILL SUPER

From 1 July 2017, a range of super reforms announced in the 2016 Federal Budget will take effect.

For most people, the impact of these changes will be positive or neutral.

Super remains a very attractive place to save for retirement. And there may be opportunities to grow your super and retire with more.

While you build up your super, pre-tax contributions and investment earnings will generally continue to be taxed at the low rate of up to a maximum of 15%[1], not your marginal tax rate of up to 49%[2].

Also, when you retire, you can still transfer a generous amount into a superannuation pension, where no tax is paid on investment earnings and payments are generally tax-free at age 60 and over.

Next steps

Once you have read through this guide, you should consider making an appointment with your financial adviser. They can assess the impact the super reforms could have for you, as well as review your retirement savings plans and the strategies you are using.

Beyond that, as we head towards the end of another financial year, now is a great time to see if there is anything else you could be doing to tax-effectively build and protect your wealth.

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1. Individuals with income above $300,000 (in 2016/17) will pay an additional 15% tax on personal deductible and other concessional super contributions. This income threshold will reduce to $250,000 from 2017/18.
2. Includes Medicare levy and, for 2016/17, the Temporary Budget Repair levy of 2% on taxable income exceeding $180,000.

REFORMS AT A GLANCE

Some important changes will be made to concessional and non-concessional contributions, as well as benefits that can be received from super.

Unless stated otherwise, the following changes take effect from 1 July 2017.

Concessional contribution changes

Concessional contributions include employer contributions (such as the superannuation guarantee and contributions made under a salary sacrifice arrangement), as well as personal contributions claimed as a tax deduction.

1. The annual cap on concessional super contributions will reduce from $30,000 or $35,000 (depending on age) to $25,000.
2. If you don't use up all of your concessional contribution cap in a financial year, from 1 July 2018 you will be able to accrue the unused amounts for up to five years. From 1 July 2019, you will be able to make additional concessional contributions on top of the normal annual cap using these unused amounts provided your total superannuation balance is less than $500,000.
3. It will be possible to make personal tax deductible super contributions up to your concessional cap regardless of your employment status.
4. An additional 15% tax on concessional contributions will be payable by people with incomes greater than $250,000 (currently $300,000).

Non-concessional contribution changes

Non-concessional contributions include personal contributions made to super from your after-tax pay or savings and super contributions received from your spouse.

1. The annual cap on non-concessional contributions will reduce from $180,000 to $100,000.
2. 'Transitional' rules will apply if you made non-concessional contributions totalling more than $180,000 in 2015/16 or 2016/17.
3. The maximum non-concessional contributions that can be made over three years, by bringing forward up to two years' worth of future contributions, will reduce from $540,000 to $300,000.
4. Non-concessional contributions will not be able to be made if you have a total superannuation balance over $1.6 million.
5. The annual cut-out income threshold that determines eligibility for the spouse contribution tax offset will be increased from $13,800 to $40,000.

Changes to superannuation benefits

1. A lifetime limit of $1.6 million (subject to indexation) will apply to the amount of superannuation that can be transferred into 'retirement phase' accounts. This limit applies to existing pensions and those commenced after 1 July 2017.
2. Tax paid on earnings from investments held in 'transition to retirement' pensions will increase from 0% to a maximum of 15%.
3. Capital gains tax relief may be available when converting money held in the retirement phase back into the accumulation phase to meet either of the above two requirements.

KEY OPPORTUNITIES

Some opportunities to grow your super and retire with more may be available before and after 30 June this year.

Before 1 July 2017.

Maximise concessional contributions

Concessional contributions are taxed in the super fund at a maximum rate of 15% (or 30% for some people who earn a high income[3]). This tax rate in super is likely to be lower than your marginal tax rate of up to 49%[4] that would be paid on salary or other sources of taxable income.

In the current financial year, these contributions are capped at $35,000 pa if you were 49 years of age or older on 30 June 2016 and $30,000 pa for everyone else.

From 1 July 2017, the cap reduces to $25,000 pa for everyone. If your cashflow allows, you may want to take advantage of the higher cap that applies until 30 June 2017.

Annual before-tax contributions caps

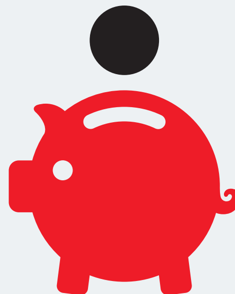
Now

$30,000
age 48 or under on 30 June 2016

$35,000
age 49 and over on 30 June 2016

From 1 July 2017

$25,000
for everyone



From 1 July 2018

$25,000

There is an opportunity to contribute more than the annual cap if you haven't fully utilised the cap in previous years and your super balance is $500,000 or less. Cap amounts unused from 1 July 2018 can be carried forward for up to five consecutive years.

Everyone who is eligible to make personal super contributions will be able to claim a tax deduction for these contributions to eligible super accounts, up to the concessional contribution cap.

3. Individuals with income above $300,000 (in 2016/17) will pay an additional 15% tax on personal deductible and other concessional super contributions. This income threshold will reduce to $250,000 from 2017/18.
4. Includes Medicare levy and, for 2016/17, the Temporary Budget Repair levy of 2% on taxable income exceeding $180,000. Resident marginal tax rates can be found at www.ato.gov.au

KEY OPPORTUNITIES

Some opportunities to grow your super and retire with more may be available before and after 30 June this year.

Before 1 July 2017.

Maximise non-concessional contributions

In the current financial year, non-concessional contributions are capped at $180,000 pa or $540,000 if you bring forward up to two years' worth of contributions. Other conditions apply (www.ato.gov.au).

From 1 July 2017, the maximum non-concessional contributions you can make is $100,000 or $300,000 by bringing forward two years' worth of contributions. However, non-concessional contributions will not be able to be made if you have a total superannuation balance[5,6] over $1.6 million.

If you have sufficient money available that you would like to contribute to super, you may want to make non-concessional contributions before 30 June 2017 to take advantage of the higher cap.

Note: It is important to ensure that concessional and non-concessional contributions are made within the caps. Breaching the cap may result in significant tax penalties. As with all super contributions, they are only available once a condition of release has been met. Further information is available at ato.gov.au

Annual after-tax contributions caps

Now	From 1 July 2017
$180,000 pa or $540,000 over a three year period if certain conditions are met	$100,000 pa[5,6] or $300,000[5,6] over a three year period if certain conditions are met

Transitional rules will apply for contributions made between now and the 2018/19 financial year. These rules are complex and it is recommended that you speak to a financial adviser before making a contribution.

5. After-tax contributions cannot be made where super balance exceeds $1.6m.
6. Total superannuation balance includes superannuation savings in accumulation and income streams.

KEY OPPORTUNITIES

From 1 July 2017.

Personal deductible contributions for employees as well

Currently, only those earning less than 10% of their income[7] from employment (the '10% test') are eligible to claim super contributions as a tax deduction. From 1 July 2017, all individuals under the age of 65 (and those aged 65 to 74 who work more than 40 hours over 30 consecutive days in the financial year the contribution is being made), will be able to claim a tax deduction for personal super contributions.

This change will enable more people to be able to:

- make personal deductible contributions, and
- make greater use of the cap that applies to personal deductible and other concessionally taxed super contributions.

Key examples include people who:

- are employed and receive superannuation guarantee contributions that are within the concessional contribution cap, but their employer doesn't offer salary sacrifice arrangements
- switch from being a self-employed contractor to an employee during the course of a year and fail the 10% test due to employment income, and
- are residents for tax purposes who are working overseas for a foreign employer and their employer can't or won't contribute to an Australian super fund.

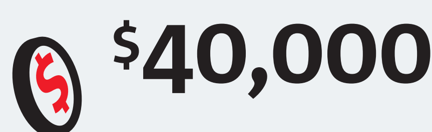
Make spouse super contributions

Currently, a tax offset of up to $540 is available for individuals who make superannuation contributions to their spouse's account if their spouse earns[7] up to $13,800 pa.

From 1 July 2017, the Government will allow more people to access the offset by extending eligibility to those whose spouses earn up to $40,000 pa.

Spouse contributions

Now	From 1 July 2017
Tax offset for spouse contributions only where recipient income[7] is less than	Tax offset for spouse contributions only where recipient income[7] is less than



7. Includes assessable income, reportable fringe benefits and reportable employer super contributions.

KEY OPPORTUNITIES

From 1 July 2018 and 2019.

Make 'catch-up' concessional contributions

From 1 July 2018, if you don't use up all of the concessional contribution cap (see page 5) you will be able to accrue the unused amounts for use in subsequent years. Unused amounts can be carried forward on a five year rolling basis. 2019/20 is the first financial year it will be possible to use the carried forward amounts. To be eligible, your super balance cannot exceed $500,000 on 30 June of the previous financial year.

If eligible, this new opportunity will help those unable to utilise the concessional contribution cap due to broken work patterns and competing financial commitments. It could also help to manage tax and get more money into super when selling assets that result in a capital gain, as the following case study illustrates.

Case study: Using catch-up contributions to offset capital gains tax

Mike is 59 and has retired. He has superannuation interests totalling $340,000. He has a holiday house that he is considering selling in a few years. Currently, he would have a net capital gain of $200,000 on the property.

If Mike sold the property in 2018/19, he could make a personal deductible contribution of $25,000 to reduce his capital gains tax liability. However, if Mike decided to wait until 2022/23 to sell the property, he may be eligible to make a personal deductible contribution of $125,000 (assuming he does not make any concessional contributions over the next five years). This is equal to his annual concessional contribution cap for that year of $25,000, plus his carried forward unused concessional contribution cap amounts for the previous four financial years. The difference in tax outcomes is summarised in the table below.

Note: *Mike's total superannuation interests on 30 June 2022 must be less than $500,000 to be eligible to make catch-up contributions. The decision to sell an asset and make superannuation contributions with the proceeds must be made when considering a number of aspects and not only tax implications.*

	Tax implications if holiday home sold in:	
	2018/19	2022/23
Personal tax	$52,382	$15,922
Super contributions tax	$3,750	$18,750

Note: The case study above is designed to show the benefit of using the catch up regime only and is simplified for this purpose. It is based on the 2016/17 resident tax rates and assumes the realised capital gain of $200,000 is the only source of income (ignoring any discount available). Future increases to the concessional cap, subsequent fluctuations in the market value of the property, Medicare levy and any potential changes to the personal income tax rates are ignored. Realistically, other considerations are likely to outweigh the tax issues when considering whether an asset should be sold and proceeds used to make superannuation contributions. Advice should be sought from a registered tax agent as required when considering specific tax implications for individual circumstances. Concessional contributions are assumed to be taxed at a flat rate of 15%.

IMPLICATIONS FOR TRANSITION TO RETIREMENT PENSIONS

The super reforms impact transition to retirement pensions and the role they could play in pre-retirement planning.

What's a transition to retirement pension?

A transition to retirement (TTR) pension is a pension that has started with superannuation money when you have reached your preservation age[8], but have not yet retired.

These pensions can provide a tax-effective source of income to supplement income from employment or self-employment in the lead-up to retirement.

A common strategy

Many people have implemented a strategy whereby they have:

- arranged with their employer to contribute part of their pre-tax salary directly into super (via salary sacrifice) or made personal deductible super contributions
- transferred some of their existing super in a TTR pension, and
- used the regular payments from the TTR pension to replace the cashflow used to make the extra super contributions.

Using this strategy provides the potential to build a bigger retirement nest egg without reducing current income.

Impact of reforms

The super reforms that could impact this strategy from 1 July 2017 include:

- the reduction in the annual cap on concessional (pre-tax) super contributions from $35,000 / $30,000 (depending on age) to $25,000, and
- the increase in the tax paid on earnings on investments held in TTR pensions from 0% to a maximum of 15%.

From 1 July 2017, it's anticipated this strategy will remain effective for some people, but for others it may not be viable.

You should speak with a financial adviser who can help you assess whether this strategy remains suitable. It is important to consider the changes as your super fund may be eligible for capital gains tax relief depending on steps you take prior to 1 July 2017.

Top up your income when cutting back work

Despite the super reforms, a TTR pension can still be effectively used to replace reduced income if you plan to scale back your working hours.

For example, if you plan to cut back your working week from five to three days, you may be able to start a TTR pension and draw enough income to compensate for the two days you won't be working.

By doing this, you're likely to pay less tax on the income you receive from the TTR pension than you do on your salary or business income. This is because the taxable income payments from a TTR pension attract a 15% tax offset between preservation age[8] and 59, and the income payments are tax-free[9] at age 60 or over.

If you would like to use a TTR pension to top up your income when cutting back your work, we recommend you speak with a financial adviser.

8. Preservation age is 55 for those born before 1 July 1960 and gradually increases to 60 depending on your date of birth. Further information is available at www.ato.gov.au
9. Assumes the TTR pension is commenced from taxed super fund.

IMPACT OF $1.6 MILLION PENSION TRANSFER BALANCE CAP

While the introduction of a $1.6 million pension transfer balance cap will not affect many Australians, key changes will need to be made if you are impacted.

The rules to ensure people don't transfer more than $1.6 million from the 'accumulation' phase of super into the 'retirement phase' (otherwise known as a superannuation pension or income stream) are quite complex and beyond the scope of this booklet to explain in any detail.

There are, however, a few key things to keep in mind.

Few people will be impacted

The Government has indicated that less than 1% of Australia's superannuation account holders will be affected by the transfer balance cap of $1.6 million[10].

$1.6 million can provide a generous retirement income

A superannuation pension of $1.6 million could generate an annual income of:

- around four times the level of the single age pension[11], and
- almost three times the 'comfortable' lifestyle standard identified by the Association of Superannuation Funds of Australia[10].

Couples can have $3.2 million in pensions

Up to $3.2 million may be transferred to pensions by a couple, as the $1.6 million pension transfer balance cap is a per person limit.

Contribution splitting could be a good strategy

Where one member of a couple holds the majority of the superannuation and that person has (or will) accumulate more than $1.6 million in super, splitting up to 85% of the previous financial year's concessional contributions with their spouse who has less super could increase the combined amount that could be transferred into pensions.

Accumulation phase is still tax-effective

Amounts exceeding the $1.6 million transfer cap won't have to be withdrawn from the super system. The excess amount can stay in the 'accumulation' phase where earnings are generally taxed at 15%, but in most cases the actual tax rate paid is a lot lower when deductible expenses, franking credits and other items are taken into account in the fund.

Seek advice

If you think you might be impacted by this measure you should speak with your financial adviser. It is important to consider the changes as your super fund may be eligible for capital gains tax relief depending on steps you take prior to 1 July 2017.

10. Budget 2016 Superannuation Reform: Introducing a $1.6 million transfer balance cap (www.budget.gov.au)
11. Explanatory Memorandum - *Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016.*

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