bastion SUPERANNUATION SOLUTIONS

SuperNews May 2016

2016 Federal Budget Superannuation Changes

The Federal government delivered their Budget for the 2016/17 financial year on 3 May 2016. This year the Budget included proposals that would mean substantial changes in the area of superannuation if legislated. In particular:

- Introducing a life-time cap of $500,000 for non-concessional contributions effective 3 May 2016
- Reduction of the concession contributions cap to $25,000 from 1 July 2017
- Removal of the tax exemption for earnings from assets supporting Transition to Retirement Income Streams (TRIS) from 1 July 2017
- Introducing a $1.6 million superannuation transfer balance cap on pension balances from 1 July 2017

At this stage these changes are currently Budget proposals only. These proposals would not come into effect until legislation has been passed by Parliament and it is possible that some of the underlying details may change or not be legislated.

Lifetime cap for non-concessional contributions

A lifetime non-concessional contributions (NCCs) cap of $500,000 will be introduced. The lifetime cap will take into account retrospectively all NCCs made on or after **1 July 2007** (the time from when the ATO has reliable contributions records) and will commence at **7.30 pm (AEST) on 3 May 2016.**

The lifetime cap will replace all existing annual NCCs caps, including any "bring-forward" arrangements (currently $180,000 and bring forward of $540,000).

Any NCCs made between 1 July 2007 and 3 May 2016 cannot alone lead to a breach of the contributions cap.

However, for any **additional** contributions post 3 May 2016, the earlier contributions since 1 July 2007 will be taken into consideration, to determine if there is a breach of the $500,000 NCCs lifetime cap.

If the lifetime NCCs cap is exceeded the Australian Taxation Office (ATO) may apply excess contributions tax.

*To avoid cap breaches individuals planning to make large NCCs post budget night and **before 30 June 2016** should review with their financial adviser their NCCs since 1 July 2007 against the new $500,000 lifetime limit.*

The review may be difficult where a member has had a number of fund memberships since 1 July 2007. Trustees of Funds we administer can also contact our office for information on previous NCCs we have on file.

Changes to concessional contributions cap

From 1 July 2017 the concessional contributions (CCs) cap for all individuals will be reduced to $25,000 per annum regardless of age.

Currently the CCs cap is $30,000 under age 50 and $35,000 for ages 50 and over.

Additionally, from 1 July 2017, individuals with superannuation balances under $500,000, and who have not reached their CCs cap in previous years will be able to carry forward any unused cap amounts for a rolling period of up to 5 years.

However, only amounts from 1 July 2017 and after will be able to be carried forward for future use.

Tax exemption for Transition to Retirement Income Stream (TRIS) removed

From 1 July 2017 the tax exemption for earnings from assets supporting a TRIS will be removed with earnings subject to the standard 15% tax.

Pension withdrawals made from a TRIS account by those 60 and over will retain their tax free status.

Additionally, individuals will no longer be able to treat certain income stream payments as lump sums for tax purposes, which currently makes them tax-free up to the low rate cap of $195,000.

$1.6 million pension transfer balance cap

A cap of $1.6 million will apply to the amount of assets that an individual can transfer to pension phase from 1 July 2017. This cap is intended to be a life-time limit. However, the life-time limit does not include any earnings on account balances or withdrawals after they have been transferred to pension phase.

This change will apply to existing pensions as at 1 July 2017. It is expected the balance of pensions above the $1.6 million cap would be transferred to a member's accumulation account within the Fund on 1 July 2017 or it could be withdrawn from super if eligible.

For existing pensions the amount applied towards the life-time cap would be the balance as at 1 July 2017 and not the original commencement price of the pension. For any pension commenced after 1 July 2017 the amount would be based on the then purchase price of the pension.

It is proposed that a tax will apply to amounts that are transferred to pension phase exceeding the $1.6 million cap. It is expected that this tax would operate similarly to the current excess contributions tax regime.

$1.6 million pension transfer balance cap (cont'd)

As this change will be fairly complicated we anticipate that important details will only come to light when the Government introduces draft legislation to Parliament. For example, how will this change apply to reversionary pensions and market linked / complying pensions.

Contribution rules for ages 65 to 74

From 1 July 2017 any individual aged between 65 and 74 years old would no longer be required to pass the "work test" in order to make contributions to a superannuation fund.

This would include both concessional and non-concessional contributions

Div 293 taxation of concessional contributions

Currently those who earn over $300,000 (taxable income plus concessional superannuation contributions) are required to pay an additional 15% contribution tax on their concessional super contributions (i.e. total of 30% contribution tax).

Included in the Federal Budget is a proposal to reduce this threshold to $250,000 from 1 July 2017.

The Australian Taxation Office will continue to send these notices for additional contributions tax to individual taxpayers who meet the criteria for the high income threshold.

Tax deductions for personal superannuation contributions

From 1 July 2017, the Government proposes to allow individuals aged 74 or under to claim a deduction in their personal tax return for superannuation contributions regardless of their employment circumstances.

Currently a deduction for superannuation contributions can only be made in a personal tax return if an individual satisfied certain requirements (ie. less than 10% of their income was from an employer).

Other Superannuation measures in the Budget

There were a number of other Budget proposals from 1 July 2017 that relate to superannuation as follows:

- a non-refundable Low Income Superannuation Tax Offset (LISTO) with a maximum of $500 will apply to reduce tax on concessional contributions for individuals with an adjusted taxable income of less than $37,000;
- the low-income spouse tax offset will now apply where a spouse has an adjusted taxable income of up to $37,000 (previously $10,800) with a contributing spouse eligible for an 18% offset worth up to $540 for contributions made to a spouse's super account.
- the deduction for anti-detriment payments will be abolished.

How can we help?

If you would like some assistance with identifying how these proposals may affect your own superannuation fund, please feel free to give our office a call or contact your financial adviser.

Please note that the changes outlined in this newsletter are proposals only at this stage, and will not take effect until the passage of relevant legislation.

About Bastion Superannuation Solutions

Bastion Superannuation Solutions specialises in the provision of administration and compliance services to self managed superannuation fund trustees and advisers.

For further information on our range of services please see our web site.

Our range of services include:

- Self managed superannuation fund establishment
- Fund Administration including preparing financial accounts and maintaining member records
- Superannuation compliance and technical guidance
- Group Life Insurance Pool for superannuation fund members
- Assistance with updating self managed superannuation fund trust deeds

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