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SUPERANNUATION SOLUTIONS

SuperNews May 2018

Superannuation related changes in the 2018 Federal Budget

Self-managed superannuation funds (SMSFs) were largely out of this year's Federal budget spotlight as the Government delivered a budget that poises it for an election in the next 12 months.

This is a relief to the SMSF industry and SMSF trustees given the work required for the first year of recent superannuation tax changes that commenced from 1 July 2017.

One of the more significant announcements is the Government's intention to reduce personal income tax over stages starting with tax relief for low and middle income earners from 1 July 2018 and culminating in the elimination of the 37 per cent tax bracket (and increasing the lower threshold of the top tax bracket) from 1 July 2024.

Some of the main changes from the 2018 Federal Budget include:

- Tax reductions for low and middle income earners
- Making the tax system easier over the coming years by reducing tax brackets
- Reduction in fees and a ban on exit fees on all super funds.
- Opt-in insurance for young and low super balance Australians
- Pension work bonus program expanded
- Expanding the pension loan scheme to all older Australians.
- Additional funding for regulators.

In our newsletter we will focus on the superannuation related changes.

Three-yearly audit cycle for some SMSFs

From 1 July 2019, the Government will change the annual audit requirement to a three-yearly requirement for SMSFs with a history of good record-keeping and compliance. The Government has indicated they believe this measure will reduce red tape for SMSF trustees that have a history of three consecutive years of clear audit reports and that have lodged the fund's annual returns in a timely manner. To ensure smooth implementation, the Government has advised they will consult with stakeholders.

There may be some hurdles to overcome with this measure. It is unlikely an auditor will be able to sign off on the third year without having a level of comfort as to what has transpired in previous two years. This could mean that audit costs will reflect this as auditors may likely charge a client for three years anyway given they may need to review earlier two years. It also means that compliance issues may be detected much later making rectification more difficult.

Increasing the maximum number of allowable members in an SMSF and small APRA fund

From 1 July 2019, the Government will increase the maximum number of allowable members in new and existing SMSFS and small APRA funds from four to six. This will provide greater flexibility for joint management of retirement savings, in particular for large families.

Previously a Mum and Dad with four children could only have two children join their SMSF with them.

Exemption from the work test for voluntary contributions

From 1 July 2019, the Government will introduce an exemption from the work test for voluntary contributions to superannuation, for people aged 65-74 with superannuation balances below $300,000, in the first year that they do not meet the work test requirements. Under current law, the work test restricts the ability to make voluntary superannuation contributions for those aged 65-74 to individuals who self-report as working a minimum of 40 hours in any 30 day period in the financial year.

The work test exemption will give recent retirees additional flexibility to get their financial affairs in order in the transition to retirement.

Also in this issue…

Preventing inadvertent concessional cap breaches by certain employees

From 1 July 2018, the Government will allow individuals whose income exceeds $263,157, and who have multiple employers, to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG). The measure will allow eligible individuals to avoid unintentionally breaching the $25,000 annual concessional contributions cap as a result of multiple compulsory SG contributions. Employees who use this measure could negotiate to receive additional income, which is taxed at marginal tax rates.

This measure will allow high income earners the ability to avoid excess concessional contributions.

Deductions for personal contributions

Funding will be provided to the ATO to improve the integrity of the 'notice of intent' ('NOI') processes for claiming personal superannuation contribution tax deductions.

Currently, some individuals receive deductions on their personal superannuation contributions but do not submit a NOI, despite being required to do so. This results in their superannuation funds not applying the appropriate 15% tax to their contribution so no tax is paid on the contributed amount.

The additional funding will enable the ATO to develop a new compliance model, and to undertake additional compliance and debt collection activities. From 1 July 2018, the ATO will modify income tax returns to alert individuals to the NOI requirements with a tick box to confirm they have complied.

Changes to insurance in superannuation

Insurance within superannuation will move from a default framework to an opt-in basis for:

- members with low balances of less than $6,000;
- members under the age of 25 years; and
- members whose accounts have not received a contribution in 13 months and are inactive.

The changes will take effect on 1 July 2019. Affected individuals will have a period of 14 months to decide whether they will opt-in to their existing cover or allow it to switch off.

The Government is seeking to protect the retirement savings of young people and those with low balances by ensuring their superannuation is not unnecessarily eroded by insurance premiums for cover they do not need or may not be aware that it is being provided.

Capping passive fees, banning exit fees and reuniting small and inactive superannuation accounts

From 1 July 2019, a 3% annual cap on passive fees charged by superannuation funds on accounts with balances below $6,000 will apply and there will be a ban exit fees on all superannuation accounts.

In addition, all inactive superannuation accounts with balances below $6,000 will need to be transferred to the ATO. The ATO will expand its data matching processes to proactively reunite these inactive superannuation accounts with the member's active account, where possible.

Minor technical amendments

The Government will make a series of minor amendments to Treasury portfolio legislation to clarify the law, correct technical or drafting defects, remove anomalies and address unintended outcomes.

The amendments include two changes that will be beneficial for superannuation funds and their members. These are technical amendments to the transition to retirement income stream rules relating to the death of a member and addressing double taxation in respect of deferred annuities purchased by a superannuation fund or retirement savings account.

Comprehensive income products in retirement

The superannuation law will be amended to introduce a retirement covenant that will require superannuation trustees to formulate a retirement income strategy for superannuation fund members.

The Government will also amend the Corporations Act 2001 to introduce a requirement for providers of retirement income products to report simplified, standardised metrics in product disclosure to assist customer decision making

Older Australian package

The Government introduced the following measures to enhance the standard of living older Australians:

- Increase to the Pension Work Bonus from $250 to $300 per fortnight.
- Amendments to the pension means test rules to encourage the take up of lifetime retirement income products.
- Expansion of the Pensions Loan Scheme to allow more Australians to use the equity in their homes to increase their incomes.

Personal income tax bracket changes

The Government has provided personal income tax relief to lower and middle income earners. A Low and Middle Income Tax Offset will now be available for individuals with incomes of up to $125,333.

The $87,000 income threshold, above which a 37 per cent tax rate applies, will increase to $90,000.

Superannuation Contributions 2017-18

For 2017-18 Financial year a concessional contribution cap of $25,000 applies for everyone who is eligible to make these contributions. There is no longer a higher cap for anyone 50 or over.

The annual non-concessional contribution cap is $100,000 (reduced from $180,000 limit that applied in 2016-17). However, where an individual's total amount in superannuation on 30 June in the previous financial year was at least $1.6 million they will not be able to make any non-concessional contributions for that financial year.

The contribution eligibility rules are illustrated in the table below.

Age	Member's Employer	
	Superannuation Guarantee/mandated	*Voluntary/non-mandated*
Under Age 65	Allowable	Allowable
Age 65 - 74	Allowable	Only if you have worked at least 40 hours in not more than 30 consecutive days in the financial year
Age 75 and over	Allowable	Not allowed

	Member
Under Age 65	Allowable
Age 65 - 74	Only if you have worked at least 40 hours in not more than 30 consecutive days in the financial year
Age 75 and over	Not allowed

	Member's Spouse
Under Age 65	Allowable
Age 65 - 69	Only if the member has worked at least 40 hours in not more than 30 consecutive days in the financial year
Age 70 and over	Not allowed

The table below summarises the *main* types of concessional and non-concessional contributions and limits for 2017-18 year as well as the penalties for breaching the caps:

Type of Contribution	Consists of	Annual Limit 2017-18	Breach of Cap
Concessional Contributions (CCs)	Employer contributions (including Salary Sacrifice) Personal contributions where a tax deduction is claimed Certain amounts allocated from a fund reserve unless an exemption applies	$25,000 (indexed annually with average weekly ordinary time earnings (AWOTE) and rounded down to the nearest $2,500). An increased contributions tax can apply for high income earners (please see over page)	*From 1 July 2013:* • All excess CCs will be included in the individual's assessable income and taxed at the individual's marginal tax rate plus an interest charge. A tax offset of 15% will also apply in the individual's income tax return to account for the 15% contributions tax already paid by the superannuation fund. • Individual has option to withdraw 85% of the excess amount from super (net of 15% contribution tax already paid) to assist in paying the income tax assessment arising from the excess contributions.
Non-concessional Contributions (NCCs)	Personal contributions not claimed as a tax deduction Spouse Contributions Contributions for a Child (apart from employer contributions) Amounts transferred form an overseas pension scheme that are not taxable in the fund Excess of the CCs cap (grossed up to include the 15% fund tax) excluding the amount of excess CCs which are withdrawn	$100,000 (subject to your total superannuation balance) From 1 July 2017 individuals with a total superannuation balance of more than $1.6 million will no longer be eligible to make NCCs. An individual's total superannuation balance includes all accounts held in any superannuation fund (based on their balances at 30 June of the previous financial year). **Bring Forward Arrangements** See below for current and transitional rules	*From 1 July 2013:* Amounts in excess of cap, along with 85% of any associated earnings can be withdrawn from Super. Any associated earnings would be taxed at your marginal tax rate less a 15% tax offset. Excess NCCs not withdrawn from Super are taxed at 47% (2017/18)

Bring Forward Arrangements (From NCCs Annual Limit above)

Members under age 65 (at any time in the financial year) may bring forward future annual NCC cap entitlements based on their total superannuation balance as at 30 June of the prior financial year as follows:

- Balance under $1.4 million – access to full $300,000 cap over 3 years;
- Balance between $1.4 million & $1.5 million – access to $200,000 cap over 2 years; or
- Balance over $1.5 million but under $1.6 million – no access to bring forward.

Transitional arrangements apply where a bring forward of NCCs was triggered in 2015/16 or 2016/17 and total NCCs up to 30 June 2017 are less than $540,000 as follows:

- Where the bring forward was triggered in the 2015/16, remaining NCC cap for 2017/18 is $460,000 less NCCs made in 2015/16 and 2016/17;
- Where the bring forward was triggered in 2016/17 remaining cap for:
  - 2017/18 is $380,000 less NCCs made in 2016/17; and
  - 2018/19 is $380,000 less NCCs made in 2016/17 and 2017/18.
- Total superannuation balance must also be less than $1.6 million at prior 30 June otherwise remaining NCC cap is nil for that year and NCCs will be excessive.

Other Contributions

Personal injury contributions may also be permitted.

In addition certain payments made into superannuation are also treated as contributions. These include:

- Contributions from either:
    - the capital proceeds of asset sales that meet the CGT small business 15 year exemption (or would have if a capital gain had arisen), or
    - a capital gain that meets the CGT small business retirement exemption.

  Choice is made using an ATO form no later than the time the contribution is made.

  A small business lifetime limit of $1,445,000 applies (indexed annually in increments of $5,000 with AWOTE).

- Foreign termination payments transferred from overseas funds after a person has taken up residence in Australia.

Please contact our office if you need information on these types of contributions.

Contributions tax for higher income Earners

An additional tax of 15% applies to certain concessional contributions for high income earners.

	Increased Contributions tax for higher income earners
Income Threshold	$250,000 (reduced from the previous level of $300,000).
Income assessed	The sum of an individual's: • Taxable income excluding any taxable component of a superannuation lump sum taxed as 0% (the amount within the low rate cap) • Reportable fringe benefits • Certain family trust distributions excluded from assessable income • Total net investment loss • Concessional contributions (CCs) excluding excess CCs
Concessional contributions treatment	• If income excluding CCs is less than $250,000, only CCs that bring income above $250,000 are taxed at an additional 15% • CCs that exceed the CC cap of $25,000 will not be subject to the additional 15% tax. However, excess CCs cap tax arrangements will apply.

Downsizer contributions

From 1 July 2018, a new type of personal contributions is being introduced. For individuals aged 65 years or older and meet the eligibility requirements, they may be able to choose to make a downsizer contribution into superannuation of up to $300,000 from the proceeds of selling their home.

This measure applies to the sale of a dwelling (the home), which was the main residence, where the exchange of contracts for the sale occurs on or after 1 July 2018.

The downsizer contribution is not a non-concessional contribution and will not count towards an individual's contributions caps. The downsizer contribution can still be made if an individual has a total super balance greater than $1.6 million.

The downsizer contribution will not affect an individual's total super balance until their total super balance is re-calculated to include all your contributions, including your downsizer contributions, on 30 June at the end of the financial year.

The downsizer contribution will also count towards your transfer balance cap, currently set at $1.6 million which applies when super savings are moved into retirement phase.

Downsizing contributions can only be made for the sale of one home. It cannot be accessed for the sale of a second home.

Downsizer contributions are not tax deductible and will be taken into account for determining eligibility for the age pension.

If you sell your home, are eligible and choose to make a downsizer contribution, there is no requirement for you to purchase another home.

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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