Super Easy News!

News and information for the clients of Superannuation Services Pty Ltd

Superannuation Services
Trust, Ethics, Dedication

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2016 Budget!

Hasn't the 2016 Budget set a cat amongst the pigeons? The proposed changes are to take effect from 1st July 2017 if the Government is returned and if legislated without amendments.

$1.6M PENSION BALANCE CAP WITH TAX FREE EARNINGS

Effectively, the proposal is saying that a maximum balance of $1.6m as at 30/06/2017 will be allowed the current tax exemption on earnings. Amounts in excess of $1.6m would be rolled back into accumulation and the earnings would be taxed at 15%. The existing concessional rate on the $1.6m will be indexed in $100,000 increments in line with the Consumer Price Index (CPI). People who have only used a portion of the cap will be able to utilise the remaining portion of the indexed cap. This proposal is effectively a lifetime limit, it is per person not per fund. The movement in the pension balance due to earnings and pension drawdowns will be ignored. Having a pension account and an accumulation account will require an annual actuarial certificate to determine the tax free portion.

CONCESSIONAL CAP $25,000

Concessional contribution cap limited to $25,000 for everybody. The cap would be indexed in line with wages growth, presumably in blocks of $5,000 as at present. The current concessional contribution cap of $30,000 for people under 50 and $35,000 for people 50 and over will be retained for 16/17. Concessional contributions include super guarantee, salary sacrifice and any personal contributions where a personal tax deduction was made.

$500K NON-CONCESSIONAL LIFETIME CAP

From Budget night (03/05/2016 7:30pm) the Government is proposing to introduce a $500,000 non-concessional contributions (NCCs) lifetime cap. The cap will take into account NCCs (after tax contributions) since 01/07/2007. It will be indexed in $50,000 amounts in line with wages. How it is proposed, your NCCs level will be set as at 03/05/2016. If you have not exceeded the $500K limit, you will be able to make additional NCCs up to the lifetime limit. Amounts in excess of the cap from 03/05/16 will need to be refunded or penalty tax will apply. If you have exceeded the lifetime cap as at 03/05/16, the lifetime cap will be reached and no further NCCs will be allowed. Contributions above the cap before budget night will be able to remain in the fund without penalty. This lifetime cap will overturn the current $180,000 a year and the bring forward rule.

LOWERING DIV 293 TAX THRESHOLD TO $250K

Currently, people with adjusted income of $300,000 are liable for an additional 15% tax on their concessional contributions (commonly called Div 293 Tax). It is proposed that this threshold be lowered to $250,000 from 1st July 2017. The maximum amount of Div 293 tax payable each year will be limited to $3,750 (ie 15% of $25,000) from July 2017.

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TTR NO TAX EXEMPTION

The government is proposing, from 01/07/2017, the tax exemption on Transition to Retirement (TTR) pensions will be removed. Therefore the income earned by TTR assets will be taxed at 15%. This will apply to all TTR pensions irrespective of when they commenced. The government aim is to bring TTR's back into line with their intended use, as a tool for substituting work income rather than a tax minimisation tool. As the tax exemption will no longer apply to TTRs, it will be critical to convert TTRs to standard pensions as soon as a condition of release is met. The current rules which allow people under 60 to treat their pension payments as lump sum payments and thereby get them tax free under the "Low Rate Threshold" rule will be abolished.

IMPROVE SUPERANNUATION BALANCES OF LOW INCOME SPOUSES

The government proposes from 1st July 2017 to raise the low income spouse threshold from $10,800 to $37,000. A spouse making a contribution up to $3,000 for their spouse who has a low income is entitled to a tax offset up to $540 on their personal tax return.

C/F UNUSED CONCESSIONAL CAP OVER A 5 YEAR PERIOD < $500,000

People with a superannuation balance of less than $500K will be allowed to carry forward (c/f) unused concessional contribution cap on a rolling 5 year basis and make catch up concessional contributions. Only unused amounts accruing from 1st July 2017 will be available to be carried forward. Amounts carried forward that have not been used after 5 years will expire.

REMOVING WORK TEST 65-75

As of 1st July 2017, the government proposes to abolish the "Work Test". That means, from 01/07/2017 people between 65 – 75 would be able to make contributions to super no matter their work status. All people under 75 will have the same contribution acceptance rules. The "Work Test" is, a person over 65 and under 75, needs to work 40 hours within a 30 day consecutive period during the financial year to make a contribution. Contributions for a spouse under the age of 75 will also be allowed without the spouse receiving the contribution meeting the "Work Test".

INTRODUCING LISTO TO REPLACE LISC

The Low Income Superannuation Contribution (LISC) was to be scrapped, but they have reinstated it, with a new name, Low Income Superannuation Tax Offset (LISTO). A refund of tax paid on concessional contributions up to $500 for people with adjusted taxable income below $37,000.

TAX DEDUCTION FOR PERSONAL CONTRIBUTIONS

From 1st July 2017, it is proposed that all personal contributions to super can be tax deductible. Previously a person had to be substantial self employed (the 10% rule) to gain a tax deduction. *NB: You must have taxable income to apply for the deduction. You cannot put your personal tax position into a loss situation when making a claim otherwise the excess contribution will be classed as non-concessional contributions. To make a claim you will have to notify the super fund of your intention to claim a deduction for personal super contributions. The fund needs to issue a S290 notice which should be kept with personal tax records.*

CONCERNS/ISSUES

I. **TTR Pensions with regard to $1.6m Pension Balance Cap: Will a TTR pension count towards the $1.6m Lifetime Pension Cap?** Don't Know. As the TTR income will be taxed as normal, one would hope it will not count towards the $1.6m, but we don't know.

II. **Death Benefit: What happens if 2 people have $1.6m Pension Balances and 1 Dies?** Don't know. Does the death benefit have to be put into an accumulation account and be taxed at 15%? How will a reversionary pension be handled as they automatically revert to the beneficiary?

III. **Averaging Couples Balances: What if a Couple have $3.2m but the Account Balances are Lopsided, Can they be Averaged Out?** Don't know. Other government tests are modeled on a couple basis, why not Super? Superannuation accounts are traditionally member specific. The money in the account of the member, belongs to the member.

CONCLUSION

The government intends to legislate the objective of super as "to provide income in retirement to substitute or supplement the Age Pension". Some of these proposed budget initiatives seem a retrograde step to this objective. It is important to remember, they are only proposals at this stage. There is an election to come and if the Liberals are returned, and in light of public unrest, they will need to draft legislation and have it passed into law before we will know for sure what we are dealing with.