

Superannuation Changes

SPECIAL EDITION

This quarter our newsletter features the major changes to the superannuation industry. As most of you would be aware it has been around 10 years since the superannuation system has seen such large changes. The majority of changes come into effect from 1st July 2017,

meaning you have less than three months to act on the current legislation if appropriate. If you believe you are going to be adversely affected by any of these changes please contact our office to further discuss your personal situation.



Kim Jones - See client profile on page 4



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Superannuation changes at a glance

Up to 30 June 2017 (Now)	From 1 July 2017
CONCESSIONAL CONTRIBUTIONS	
Concessional Contribution Cap Less than age 49 \$30,000 Over age 50 \$35,000	Cap of \$25,000 a year for everyone
Annual Cap - use it or lose it	Catch up contributions permitted from July 2018 (rolling 5 year basis) for those with a balance <\$500K
15% tax on concessional contributions Additional 15% tax for those earning over \$300K	15% tax on concessional contributions Additional 15% tax for those earning over \$250k
Low Income Super contribution - refund of contributions tax for those earning up to \$37,000	Low Income Super tax offset - effectively a refund of contributions tax for those earning up to \$37,000
NON CONCESSIONAL CONTRIBUTIONS	
Contribution Cap of \$180,000 per annum	Contribution cap of \$100,000 per annum for those with balances under \$1.6m
Bring forward rule allows maximum contribution of \$540,000 for those under age 65	Bring forward rule allows maximum contribution of \$300,000 for those under age 65 and a balance under \$1.4m. Shading in and transitional rules apply.
Maximum Tax Offset of \$540 for spouse contributions (of \$3,000) if spouse earns less than \$13,800	Maximum Tax Offset of \$540 for spouse contributions (of \$3,000) if spouse earns less than \$37,000. Shading in where spouse income is between \$37,000 - \$40,000, thereafter nil.
PENSION PHASE	
Unlimited pension accounts and balances	Maximum of \$1.6m in pension phase at 1 July 2017 (called transfer balance cap)
Fund earnings tax free on all pension accounts	Fund earnings tax free on pension accounts to \$1.6m. Account balances beyond \$1.6m to revert to accumulation and earnings taxed at 15%
Payments to individuals tax-free from age 60	Payments to individuals tax-free from age 60
TRANSITION TO RETIREMENT INCOME STREAMS (TRIS)	
Fund earnings tax-free	Fund earnings taxed at 15%
Pension payments to individuals tax-free from age 60	Pension payments to individuals tax-free from age 60
CAPITAL GAINS TAX CONCESSIONS	
N/A	Funds with pension members affected by transfer balance cap or TRIS changes may be eligible to reset cost bases of assets to market value at 30 June 2017
SUPERANNUATION DEATH BENEFITS	
Fund can apply an anti-detriment claim to effectively refund contributions tax paid by the deceased	Anti-detriment payments to be abolished from 1 July 2017. Transitional rules apply for death benefits paid for a member that died pre 30 June 2017 with payment made prior to 30 June 2019.



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Super Changes – more detailed

Concessional Contributions – Individuals' Point of View

From the 01/07/17 (the 2017/18 financial year), the concessional contributions cap will be limited to \$25,000/year regardless of your age. Please remember, that if your employer is contributing to your super that these contributions also contribute to your cap. For example, if you earn \$80,000/year in wages, your employer would have contributed 9.5% totalling \$7,600 to superannuation. You could therefore contribute a further \$17,400 and claim this as a tax deduction.

Individuals who are earning income (regardless if business income or wages from an employer) from 1/07/17 are able to claim a tax deduction for any personal contributions made to their complying super funds. Individuals must also be less than 65 years of age or aged between 65 and 74 and meet the work test. An intention to claim a tax deduction form must be completed & sent to the fund by the individual before completing their tax return. The individual will then receive confirmation back from their fund. Previously only people earning 90% or more of their income from sources other than employment were able to claim a tax deduction (ie. if you were in business).

**Note: If your concessional contributions exceed the \$25k cap. The excess contribution will be taxed at your individual marginal rate of tax plus an interest component.*

Catch-up Concessional Contributions

From 1 July 2018, individuals with super balances less than \$500,000 will have access to catch-up concessional contributions on a rolling-basis over 5 years. The first year that this can be utilised is the 2019/20 financial year. Any unused concessional cap balance from the 2019 financial year can be utilised in the 2020 financial year and so on until the end of the five year period at which time any unused balance will expire.

Concessional Contributions – Super Funds View

Any concessional contributions contributed to your super fund are taxed at 15% inside the super fund. You would normally see this on your superannuation statement received from the fund. For example, if your employer paid \$5,000 into your fund as compulsory superannuation payments. The fund would then pay \$750 to the government and deduct this from your super balance.

Currently, the government reimburses the fund for any tax paid up to \$500 if an individual's adjusted taxable income is less than \$37,000; called the Low Income Super Contribution (LISC). This was set to end at 30/06/2017. As a part of the budget this initiative will continue under a different name; now called the Low Income Superannuation Tax Offset.

Non-Concessional Contributions – Individuals Point of View

Previously, the non-concessional contributions cap was \$180,000 per year; this is being reduced from 1/07/17 to \$100,000 pa. (You must also have a super balance under \$1.6 million).

The bring-forward provisions will still exist, however, drastically reduced from the maximum contribution of \$540,000 to just \$300,000 for those aged under 65 and a balance under \$1.4 million. This also applies from 1/07/17.

Spouse Tax Offset

If you make super contributions to your spouse's super fund and your spouse earns less than \$40,000 per year, you may be eligible for a tax offset up to \$540 from 1/07/17 (previously the spouses' income had to be less than \$13,800). There are specific factors that must be met, please contact our office if you think this may apply to you.

Division 293 Tax

Attention: individuals who are earning above \$250,000 per year from 1/07/17 will be liable for Division 293 Tax on their concessional contributions made. This is an extra 15% tax on those contributions. The extra tax liability is determined after the lodgement of the individuals' tax return. Please note the \$250,000 is determined by your income for surcharge purposes plus some other adjustments. (ie. not necessarily your taxable income). If this applies to you, there are options available in order to pay the div 293 tax.

CHANGES PREDOMINANTLY AFFECTING SUPER FUNDS

\$1.6M Transfer Balance Cap

A \$1.6 million cap has been introduced on the amount that can be transferred to retirement phase accounts, when earnings are tax-free. Funds above \$1.6 million can remain inside the superannuation fund in an accumulation account (where earnings are taxed at 15%) or be taken outside of the super environment. The \$1.6 million cap will be indexed, however if you have already utilised the \$1.6 million cap, you cannot take advantage of further increments.

Individuals who breach the cap will be liable for a penalty tax on the notional earnings of the excess capital.

Please see our last newsletter for a more detailed view on this or contact Alysha at our office to discuss your specific situation.

Transition to Retirement Income Streams

Previously if you were drawing a transition to retirement pension, the super fund's earnings were tax-free. From 1/07/17 the fund's earnings will be taxed at 15%. There has however been no change as to how these pension payments are taxed in the individuals' hands; once you turn 60 your pension payments are tax-free.



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Capital Gains Tax Concessions

Temporary CGT relief will be provided for accumulated capital gains on assets which would have been exempt but for the introduction of the \$1.6 million pension cap. The trustee can elect to reset the asset's cost base to its current market value. The relief will ensure that CGT is only payable (on the sale of these assets after 1 July 2017) on capital gains accrued from 1 July 2017.

The relief only applies to assets acquired by the Fund prior to 9 November 2016 and continued to be held by the Fund until 30 June 2017. The choice needs to be made in the approved form before the 2016/17 fund tax return is lodged, and cannot be revoked.

POTENTIAL TAX PLANNING OPPORTUNITIES BEFORE 30/06/17

Accumulators (typically under 65 years of age and/or aged 65-75 & still working)

- Maximise your concessional contributions (\$35,000 limit for those aged 49 or above at 30/06/16 or \$30,000 for those below 49 at 30/06/16)

- Can still use the current non-concessional caps to contribute \$180,000 or up to \$540,000 under the bring-forward provisions before 30 Jun 2017. If bring-forward provisions are triggered prior to 30 Jun 2017 and you have not physically contributed the full \$540,000 by 30 Jun 2017, your bring-forward provision will be limited to \$380,000 (\$180,000 for 2017 financial year, \$100,000 for 2018 financial year and \$100,000 for 2019 financial year).

Large Super Balances and/or Retirees

- From 1/07/17 if you have a balance over \$1.6 million you will no longer be eligible to make non-concessional contributions. Should you therefore be utilising the non-concessional contributions cap now? However, you will only be eligible to contribute if you meet the work test (under 75 and 'works' at least 40 hours in a 30 day period). Remember, the excess above \$1.6 million will be taxed at 15% in the fund from 1/07/17.

- In most cases as the tax rate of 15% is still lower than the lowest 19% marginal tax rate, super remains to be a tax effective option.

- Most importantly, ensure you have unlisted investments valued at 30 June 2017 in the event CGT concessions can be applied.

Low Super Balances

- May be best to wait until 1/07/17 to contribute to your fund as there are some additional options available to you.

Employees

- If you are planning to personally add to your superannuation may be best to wait until after 1/07/17. In 2018 you can therefore claim a tax deduction for this. However, you can already have a salary sacrifice arrangement in place to sacrifice pre-tax earnings directly into superannuation.

As always Elphinstone Stevens Pty Ltd offers our business clients the opportunity to examine tax planning prior to 30th June. This may include utilising your superannuation options.

Client Profile: Kim Jones

I have been in business for over 20 years. I own InSPARations Day Spa, I have one premises in Spreyton and one in Brisbane Street, Launceston.

I started with humble beginnings in a small shop in Spreyton, after 3 years I built our premises where we are now. In 2010 I purchased another salon in Launceston. In 2010 I won the Telstra Small Business awards, a lovely acknowledgment of all the hard work I had put into InSPARations Day Spa. In 2012 we moved our Launceston business into a beautiful old terrace building in Brisbane Street, we modified the building to suit the day spa and the result was amazing.

The past three years my life has had a change, I got into cattle farming; anybody who knows me knows that I

didn't grow up on a farm and had, had nothing to do with cattle. This was a totally new experience. My husband who grew up on a dairy farm wanted some acres and wished to have a cattle stud. I started researching and we found Speckle Park cattle.

Three years on we now have our successful stud farm; Roscrea Speckle Park Stud. Last year we were invited to the Royal Hobart Show as Speckle Park cattle were a featured breed. We have also won the best beef exhibit two years running at Agfest and I am certainly proud of how far I've come.

In 2016, we started our new business Specklepies, which you may have seen our TV advertising campaign running. Our key ingredients are sourced from specialist producers on Tasmania's

North & North West Coast. With our flagship Gourmet Specklepies using our own Speckle Park beef. Speckle Park beef is new to Tasmania with its highly marbled texture being sourced by chefs worldwide for its taste and tenderness. Specklepies are available from IGA supermarkets and Hill Street Grocers.

Our newest plan is to open a shop to the public showcasing our Specklepies at Mersey Main Road, Spreyton. Watch this space.



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