

## Making Sense of the Super Reforms

If you are waiting for the superannuation reforms announced in the Budget to pass Parliament before working out what they mean to you, you might miss out on any opportunities available.

When enacted, the reforms will represent the single biggest change to superannuation since its inception. While there has been a softening of the original Budget announcements, there are still some very big changes coming your way.

### Accumulators: Under 65

The reforms likely to impact on you are:

#### Reduction in non-concessional contribution caps

If you are close to retirement age and looking to build your super balance, this change is incredibly important. From 1 July 2017, the annual non-concessional contributions cap will be reduced to \$100,000 (from the current \$180,000).

This means that if you are approaching retirement age, you have until 30 June 2017 to use the current caps and contribute up to \$540,000 this financial year. You can do this using the 'bring forward' rule. This rule allows you to bring forward up to three years worth of non-concessional contributions in one year (and then make no or limited contributions for the next two years until you reach your three year cap). The advantage of using the bring forward rule now is that your three years worth of contributions utilise the current caps. If you contribute more than \$180,000 this financial year but not the full \$540,000, you still trigger the bring forward rule but any further contributions from 1 July 2017 are subject to the new \$100,000 cap. That is, instead of your cap being \$540,000 across three years, it might be \$460,000 or \$380,000. And, if you wait until after 1 July 2017 to trigger the bring forward rule, you will only be able to contribute up to \$300,000.

If you want to make in-specie contributions - that is, contributions to super that are not cash such as listed shares, etc., then you should look at whether the cap reduction affects your ability to do this.

### People with Large Super Balances & High Income Earners

The Government thinks that you are not using superannuation for its intended purpose – to fund retirement. As a result, the reforms introduce a whole series of measures that pare back the tax advantages for people with large super balances:

#### Non-concessional contributions capped at \$1.6 million

Once your super balance has reached \$1.6m, from 1 July 2017 you will no longer be able to make non-concessional contributions to super. So, you have until then to maximise your contributions (see *Reduction in non-concessional contribution caps*). Going forward, your super balance will be assessed at 30 June each year.

#### Concessional contributions cap reduced

From 1 July 2017, the annual concessional contribution cap will be reduced to \$25,000 for everyone (currently \$30,000 for those aged under 50 and \$35,000 for those aged 50 and over).

#### 30% tax on super extended to more taxpayers

High income earners with incomes of \$300,000 or more pay 30% tax on contributions they make. From 1 July 2017, this threshold will reduce to \$250,000.

### Retirees and those Transitioning to Retirement

The reforms likely to impact on you are:

#### Tax concessions limited to pension balances up to \$1.6 million

The reforms introduce a \$1.6m 'transfer cap' on the amount you can hold in a superannuation pension. This means that if you are in pension phase, the balance of your pension needs to be no more than \$1.6m.

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If not, from 1 July 2017 the Tax Commissioner will direct your fund to reduce your retirement phase interests back to \$1.6m and you will be subject to an excess transfer balance tax. Your overall super balance can be more than \$1.6m but only \$1.6m can be transferred into a tax-free pension. Keeping the excess balance in super may still be worthwhile because of the low 15% tax rate.

If your spouse has a low superannuation balance, it might be worth thinking about how you can maximise your returns as a couple.

### **Earnings on fund income no longer tax-free**

From 1 July 2017, the income from assets supporting transition to retirement income streams will no longer be exempt from tax but included in the fund's assessable income. For example, if your super fund earns interest from a term deposit, that interest is currently tax-free in a transition to retirement pension. From 1 July, that interest will be included in the fund's assessable income.

### **Lump sum withdrawals no longer meet minimum pension requirements**

The Government has closed a quirk in the superannuation system that allowed people under 60 to withdraw from their pension and in certain circumstances have that withdrawal treated as a tax-free lump sum. From 1 July 2017, the ability to take a lump sum from an account based pension will be removed. Generally, from age 60 these pension payments become tax-free.

### **Still Going: Over 65 and Still Working**

Currently, if you are 65 or over, your superannuation fund can only accept contributions from you if you work at least 40 hours in a 30 consecutive day period in the financial year. The original Budget announcements abolished this work test. Unfortunately, this reform is not progressing and the work test will remain.

### **Contractors & Self-Employed**

There is good news if you are partially self-employed and partially a wage earner. Currently, to claim a tax deduction for your super contributions you need to earn less than 10% of your income from salary or wages. From 1 July 2017, the 10% rule will be abolished.

This change will be useful for contractors who hold their insurance through super as they will be able to claim a personal tax deduction for these insurance premium contributions. The caveat here is that these contributions must remain within the reduced \$25,000 concessional cap.

## **Low Super Balances and Broken Employment**

There is a lot in the reforms for people who have not had the opportunity to build their super balances. The reforms likely to impact on you are:

### **'Catch up' super contributions**

Normally, annual caps limit what you can contribute to superannuation. The reforms allow people with broken work patterns to 'catch up' their concessional super contributions. From 1 July 2018, people with super balances below \$500,000 will be able to rollover their unused concessional caps for up to 5 years. Unused cap amounts can be carried forward from the 2018-19 financial year; which means the first opportunity to use these new rules will be 2019-20.

### **Tax offset for low income earners**

A new tax offset will be available for people earning less than \$37,000. The offset refunds any tax paid on super contributions.

### **Tax offset for topping up your spouse's super**

Currently, if your spouse earns less than \$10,800, you can claim a tax offset of up to \$540 if you make super contributions on their behalf. This offset is being extended to spouses who earn up to \$40,000.

## **Quote of the month**

*"As long as you blame someone or something else - something outside you that's bigger than you are - as the source of your problems, the problems won't get solved."*

*Robert Kiyosaki, Author*