Superannuation Changes

There has been a lot of media coverage around the superannuation changes coming into force on 1 July 2017. The changes were passed in November 2016 and we have summarised some of the key changes that we believe have made the superannuation system increasingly more complex.

Firstly, after reviewing the changes we have found in most circumstances people do not have to urgently make strategic changes to maintain or improve their positions. This will be something that is gradual and monitored over a period of time to maximise the outcome.

Some of changes you should be aware of include:

- Introduction of a transfer balance cap of $1.6 million
- Contribution reductions
- Catch up concessional contributions
- Income Streams tax changes (transition to retirement)
- Improved access to concessional contributions

Introduction of a transfer balance cap (income stream)

In your lifetime, a maximum amount of $1.6 million (per person) can be transferred into pension phase (income stream) within your superannuation. If your balance exceeds this amount on 1 July 2017 you will be required to either transfer your excess amount to the accumulation phase or withdraw the excess amount from their super fund.

This change is one of the most complex when it comes to implementation and management. There is less flexibility making it important that the right decision is made.

Does it affect me? Importantly it only will impact people with an individual or combined superannuation balance of $1.6M or more.

Contribution reductions

The ability to contribute into super will be reduced on 1 July 2017. The rules around the contributions are similar (work test, age, etc).

<table>
<tr><th></th><th>FY2016-17</th><th>FY2017-18</th></tr>
<tr><td>Non-concessional contributions (after tax)</td><td>$180,000</td><td>$100,000</td></tr>
<tr><td>Concessional Contributions (before tax) - Under 50</td><td>$30,000</td><td rowspan="2">$25,000</td></tr>
<tr><td>Concessional Contributions (before tax) - 50 and over</td><td>$35,000</td></tr>
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Does it affect me? If you plan on continuing to grow your super balance through contributions of any type the limits will change for you come July 1, 2017.

Catch up concessional contributions

If your super balance is under $500,000 you will be able to access your remaining 'unused' concessional contribution cap on a five-year rolling basis. This will enable someone who takes time out of work or worked part-time to make catch-up contributions when they accumulate large amounts of income (possibly due to capital gains) or manage to increase their income. The ability to do this however has been deferred for several years.

Does it affect me? This is not relevant at the present time as the government has delayed the implementation of this option.

Income Streams (transition to retirement)

Earnings and gains from investments held in a Transition to Retirement (TTR) pension will no longer be exempt from earnings tax and will be assessed at 15%. This change will potentially have an impact on TTR clients aged less than 60 with high taxable components or who have not met a full condition of release and are less than 65 years of age.

Does it affect me? If you are still working whilst drawing a pension and less than 65 years of age the rule changes will require a review of your current strategy.

Improving access to concessional contributions

From 1 July 2017, individuals under the age of 65, and those aged 65 to 74 who meet the work test, will be able to claim a tax deduction for personal contributions to eligible superannuation funds up to the concessional contributions cap.

This improves the flexibility and results in you not having to deal directly with your employer when the time is right to make additional tax deductible contributions.

Does it affect me? This is a great addition to the rules if you plan on making future tax deductible contributions.

Summary

Superannuation remains the most tax efficient structure to accumulate wealth, the rules are becoming much more complex making good advice even more important. A well considered decision can have a long term positive impact on your financial outcome.

We will be proactively managing the impact of these changes for all our advised clients. Thankfully there is no reason to panic and rush through with changes prior to 1 July 2017, some proactive planning is still regarded as prudent.

Despite these changes and increase in complexity the Australian superannuation system remains a key component for Australians to save and grow their wealth over the long term.

This is a simple explanation to provide a brief summary of some of the changes. It is general information only and cannot be construed as advice. If you require additional details, or wish to discuss your personal situation, then please contact our office.

Kind Regards,

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