SC ACCOUNTING

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CHARTERED ACCOUNTANTS

APRIL 2017

SUPERANNUATION REFORMS NEWSLETTER

Introduction

As you are no doubt aware, the Government has introduced major changes to superannuation coming into effect on 1 July 2017. These changes impact every individual to some extent and these superannuation changes are the most significant since the Howard Governments super reforms back in 2007.

The Government is concerned that superannuation in its current form is being used more as a tax effective succession-planning vehicle for the next generation's benefit. The core purpose of superannuation was to provide retirees with adequate funds to live independently in retirement and take the financial strain off the public purse (age pension system). This concept of "building for retirement" has been well received with the younger generation (early to mid 40's) now seeing the benefits of superannuation contributions, partly forced upon them with the compulsory SGC employer contributions, but also the tax effectiveness of making additional super contributions over a longer working life. The Government has decided to curtail how much can be accumulated in the tax-free superannuation environment as this newsletter will explain. We see that there are some valuable opportunities to review your superannuation nest-egg prior to the changes, but also to be aware of the impact of these changes beyond 1 July 2017.

We have addressed the superannuation changes by covering the following topics and we recommend that you consider the superannuation elements that will affect you and if you are unsure of these impacts, please do not hesitate to contact us and we will assist you with any concerns:-

- ✓ Contribution reforms including concessional and non-concessional changes and other measures;
- ✓ Pension reforms including the new $1.6 million Transfer Balance Cap and CGT Relief;
- ✓ Superannuation planning strategies now and beyond 30 June 2017;
- ✓ SC Accounting services and financial advisory offering through our wealth business SC Wealth Creation Pty Ltd and our qualified professionals.

In the lead up to the 30 June 2017, we will take the opportunity to review all our SMSF clients and notify those directly impacted by these changes.

Superannuation Contribution Reforms

1. Concessional superannuation contributions (CC) are amounts paid into your super fund from before tax sources eg SGC employer contributions – currently 9.5%, salary sacrifice contributions and personal super contributions. These amounts are tax deductible, but generally subject to income tax of 15% inside the super fund (an additional 15% surcharge can apply to high income earners);
2. Non concessional superannuation contributions (NCC) are amounts paid into your super fund from after tax sources ie no tax deduction has been claimed and these amounts are not taxed inside the super fund. Examples personal contributions not claimed as a tax deduction, spouse contributions and excess CC not withdrawn from the fund;
3. Low Income Superannuation Tax Offset (LISTO) is a tax rebate provided to the individual to compensate them for the tax paid on their superannuation contributions. This tax offset (up to a max of $500) will generally be paid into the individuals super fund and calculated based on an adjusted taxable income less than $37,000 (stepped reduction);
4. Spouse contributions is where the total spouse income (spouse assessable income & CC) is less than $37,000 a full tax offset of 18% of contributions up to $3,000 will apply eg $540 tax offset. A part tax offset applies to total spouse income from $37,000 to $40,000 (up from $13,800 currently);

5. Spouse contribution splitting is where an individual is allowed to transfer their CC (up to 85%, or 70% for Div 293) to their spouse in the year following the contribution. Conditions apply to the recipient spouse (eg < preservation age or between preservation age & 65 yrs and working ie not retired).

6. Contribution Cap Chart

Concessional Contribution Caps	Before 30 June 2017	From 1 July 2017
CC - Less than 49 years *– start of FY*	$30,000	$25,000
CC - Over 49 years *– start of FY*	$35,000	$25,000
For those individuals who are currently salary sacrificing, we recommend that you review this arrangement with your employer to avoid excess CC above $25,000. You might consider the personal super contribution option as laid out in point 7 below.		
Non-Concessional Contribution Caps		
NCC – Less than 65 years at time of contribution	$180,000	$100,000
NCC – over 65 years, but less than 75 years at time of contribution and meet the work test	$180,000	$100,000
NCC Bring Forward Rule		
NCC – Less than 64 years at start of contribution year & not previously triggered	$540,000	$300,000
Over 65 years at start of contribution year, no bring amount allowed e.g. only able to make the annual NCC cap		

7. Personal Superannuation Contributions

At present any individual wanting to make a personal super contribution in their tax returns must meet the 10% income rule. From 1 July 2017, this rule will be abolished allowing any individual to claim a personal super contribution within the cap guidelines e.g. your employer pays the 9.5% SGC which equates to $9,500, the individual will be able to claim a personal super contribution of up to an additional $15,500 in their tax return. Compliance with the ATO existing "Intention to Claim a Tax Deduction" form will need to be completed. This superannuation change could be adopted as an alternative to salary sacrificing arrangements.

8. High Income Earners (Div 293 tax) – For those high income earners with adjusted taxable incomes above $250,000 in the 2017/18 FY (currently $300,000 to 30 June 2017) an additional 15% will be charged on the superannuation contribution excess above the threshold.

9. Catch up Concessional Contributions – a new super measure effective from 1 July 2018, will allow individuals with superannuation balances below $500,000 at 30 June in the previous financial year to make "catch up" super contributions where they had a shortfall below the threshold in the previous 5 financial years. This measure will allow individuals the flexibility to exceed annual CC caps and especially valuable for people returning to work and/or large one off income spikes such as a capital gain.

Example Individual has $450,000 in super account in 2023/24 FY and has made the following previous super contributions. In 2023/24 FY, individual makes a personal super contribution of $30,000 in addition to the SGC CC of $10,000 which would exceed the 2024 CC cap of $25,000 by $15,000

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
CC made	$10,000	$10,000	$10,000	$10,000	$10,000	$40,000
Unused CC cap	$15,000	$15,000	$15,000	$15,000	$15,000	$0
Cum Unused cap	$15,000	$30,000	$45,000	$60,000	$75,000	$60,000

A rolling 5 year catch up applies, so if the $15,000 in 2018/19 was not recouped by 2023/24 that amount would be forgone. Remember the catch up rule is only available for super balances below $500,000

10. Non Concessional Contribution Restrictions

Total Superannuation Balance (TSB) is a new concept designed to ensure consistent treatment for all the individuals super measures and includes amongst other things

a. accumulation balance not in pension mode (includes TRIS account balances as they will be taxed in future) plus
b. retirement phase balance in the Transfer Balance Account (TBA) which will be tax exempt (Tax exempt up to $1.6 million threshold)

From 1 July 2017, when the total TSB exceeds the threshold (currently $1.6 million) at a particular time, the individual will no longer be able to make an NCC. For TSB balances between $1.4 mill and $1.6 mill, restricted NCC amounts apply as follows:-

- ✓ TSB greater than $1.6 mill – No NCC available
- ✓ TSB between $1.5 to $1.6 mill – NCC up to $100,000
- ✓ TSB between $1.4 to $1.5 mill – NCC up to $200,000 (consider whether previous bring forward rules apply)
- ✓ TSB less than $1.4 mill – NCC up to $300,000 (consider whether previous bring forward rules apply)

NOTE – It is important for those individuals approaching these TSB thresholds that they review and only make future NCC contributions that meet the above criteria. We recommend seeking professional advice prior to considering the making of NCC contributions especially when your TSB is approaching $1.4 million.

Contribution Strategies/ Opportunities/ Recapping

a. Ability to make the full NCC of $540,000 prior to 30 June 2017;

b. Contribution reserving in 2016/17 FY (especially if Taxable Income in 2016/17 FY is likely to be substantially higher than 2017/18 FY);

c. Spouse contribution now has a much higher threshold ($40,000 up from $13,800);

d. Review Salary Sacrifice arrangements with employer. Opt to make a personal super contribution;

e. Remember CC reduces from $35,000 (or $30,000 under 49 yrs) to $25,000 pa;

f. Potential 5 year rolling catch up CC for TSB less than $500,000 effective 1 July 2018;

g. Remember restrictions on NCC for TSB greater than $1.4 million at a particular time;

h. Re-contribution strategies particularly when TSB exceeds $1.6 million and then make an NCC of $540,000 back into super prior to 30 June 2017 rather than $300,000 post 30 June 2017;

i. Please ensure that super contributions, both CC and NCC, are received into the super funds bank account before 30 June 2017 (make it a week before);

j. A CGT Exempt rollover into super under the CGT Small Business Concessions will not count towards a NCC provided this CGT Exempt amount is paid across correctly within the guidelines. The CGT Exempt Rollover will count towards your TSB;

k. Equalise spouse balances by lump sum withdrawals and re-contribution to spouse, spouse contribution splitting, spouse contribution tax offset, spouse catch up CC with balances under $500,000;

Pension Reforms

Access to Super - Recap

The concept of retirement and how much can be treated as tax exempt in retirement intends to change from 1 July 2017. At present, an individual who meets a "Condition of Release" can access superannuation. A Condition of Release includes:-

- Attaining preservation age (starts from age 55 years for individual born before 1 July 1960 and stepped annually until the age of 60 years for individuals who were born after 30 June 1964) and retiring from the workforce;
- Attaining preservation age (as shown above) and commencing a Transition to Retirement Income Stream (TRIS);
- Ceasing an employment arrangement on or after 60 years of age;
- Attaining 65 years (whether employed or not); or
- Death;
- In addition, an individual can apply under special circumstances for the release of their super for temporary or permanent incapacity, severe financial hardship, compassionate grounds or a terminal medical condition.

Whilst in pension mode, Account Based Pension minimum pension withdrawals, based on your age at the start of the FY are as follows (no changes):

Age at start of FY	Minimum rate applied against Opening Pension Balance
Account Based Pension	
Less than 65 yrs	4%
65 – 74 yrs	5%
75 – 79 yrs	6%
80 – 84 yrs	7%
85 – 89 yrs	9%
90 – 94 yrs	11%
95 + yrs	14%
Transition to Retirement Income Stream	
Min pension = 4%	Max pension = 10%

Changes to Pensions

From 1 July 2017, an individual will only be allowed to accumulate tax free, a super balance up to the individual Transfer Balance Cap (TBC) currently starting at *$1.6 million*, but to be indexed in $100,000 increments in line with CPI. In addition, those currently enjoying a TRIS, which is currently tax-free in super, will no longer be tax-free. It is important for those currently in pension mode, and with Transfer Balance Cap over $1.6 million will need to make important decisions effective 1 July 2017.

Assets supporting superannuation interests above TBC or TRIS will not be allowed to apply the segregation method for exempt income. The proportionate method to determine the ECPI, requiring an actuarial certificate, is required from 1 July 2017.

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Transfer Balance Cap (TBC) / Transfer Balance Account (TBA)

- The TBC limits the amount of capital that can be transferred to the retirement phase to support superannuation income streams (pensions);
- An individual's TBC starts at $1.6 million for the 2017/18 FY and is subject to proportional indexation in $100,000 increments in line with CPI (per member not per fund & be aware of multiple pensions in multiple funds);
- An individuals TBA is generally a lifetime account and only ceases upon death;
- Commences upon the first credit applied towards TBA eg starting an pension.

How will TBA operate – credits and debits?

	Impact on TBA
Start the pension – credit to the TBA (up to $1.6 million)	YES
Income and capital growth / capital decrement	NO
New pensions added (credit)	YES
Pension withdrawals	NO
Lump sum withdrawals (debit)	YES
Partial Commutation (debit)	YES
Reversionary pension entitlements (credit) – be aware if this exceeds TBC – 12 mths window to fix TBC breaches	YES
Notional earnings that accrues on excess TBA (eg amounts above TBC currently $1.6 million which remain in pension phase) (credit)	YES
Family law superannuation split (debit)	YES
Withdrawal from TBA due to fraudulent activity (debit)	YES
Balance reduced by bankruptcy and void transactions (debit)	YES

Breach of TBC – currently $1.6 million

- Excess above the TBC, which remains in pension phase, will need to be actioned and withdrawn from the TBA along with notional earnings on that excess amount. It is the interests of the individual to action the breach, but also calculating the notional earnings for the period breached. These amounts (excess & notional earnings) should be withdrawn/commuted from TBA.
- Transitional rules for small breaches apply where the breach is less than $100,000 and rectified within 6 mths – no notional earnings will apply (only applicable for existing pensions prior to 30 June 2017).
- Notional earnings will be taxed at 15%, however, if the breach is not rectified any notional earnings accruing in the subsequent years will be taxed at 30%.
- In the event that the excess is not addressed, the ATO can issue a directive calculating the breach amount and notional earnings called *"Crystallised Reduction Amount"* – rectified within 60 days.

TRIS
No longer tax free in super fund

From 1 July 2017, a TRIS will no longer enjoy tax-free status within a super fund. The net income earned will be taxed at 15%, yet the same minimum/maximum pension withdrawals apply and whilst it still supplements current income streams is not as attractive to members.

Tax on Earnings in Super Fund

Assets held in:	Pre 1/7/2017	Post 30/6/2017
Accumulation phase	15%	15%
Account Based Pension	0%	0%
TRIS	0%	15%

Capped Defined Benefit Income Streams

Individuals receiving DB income streams (including market linked pensions) will also have a TBC. Income streams such as lifetime pensions & annuities, life expectancy pensions & annuities and market linked pensions & annuities will affect TBC.

Calculation of TBC = annual entitlement x 16 (factor) eg an annualised income stream of $100,000 will reach TBC of $1.6 million.

Child Pensions

In the event that a child receives a super death benefit from a parent, they are entitled to a modified TBC, which will not affect their TBC when they attain retirement.

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CGT Relief Arrangements

- Transitional CGT arrangements apply to asset transfers held in pension mode prior to 1 July 2017. Where individuals need to commute a balance from retirement phase to comply with the TBC, earnings on the assets supporting these commuted balances will become taxable. E.g. excess over $1.6 million or TRIS accounts. Under these arrangements, super funds have the option to elect to reset the cost base on assets. A reset cost base triggers a CGT event (deemed disposal and repurchase) but also restarts the 12 mth 50% general discount clock. (condition - assets must have been held continuously in pension mode from 9/11/2016 to 30/6/2017)

- Why do it? Minimises the CGT impact from moving excess TBC from pension phase to accumulation phase when the asset is subsequently sold. An election in writing is required; it is irrevocable and must be in place by the time the super fund's 2017 tax return is lodged. The Fund can elect to reset the cost base on an asset-by-asset basis. Extreme care needs to be taken when resetting the cost base e.g. capital losses, potential sales within 12 mths, implications with other members in the fund, etc

- Tax implications of CGT Relief – Funds can choose to defer the capital gain on resetting the cost base until such a time as the asset is sold. However, if the reset cost base is not deferred, the assessable amount of the notional capital gain must be taken up in the super funds 2016/17 tax return. Again, care is required when deciding whether to defer or incur the notional capital gain.

- CGT Relief Deferral – where the fund has chosen to defer the capital gain and apply the CGT relief, the trustee will need to maintain records of the assets to which the CGT relief was applied and a calculation of the non-exempt proportion of the deferred capital gains for these assets, so that when the actual capital gains or losses on those assets arise (realised) that the deferred capital gain can be brought to account.

- Choosing not to apply CGT Relief – planning opportunities can arise not to apply for CGT relief especially if one member is in pension mode and the other is in accumulation mode, but will move to pension mode prior to realisation of the underlying asset.

Pension Strategies/ Opportunities/ Recapping

a) TBA exceeding $1.6 million – action required to commute excess;

b) Consider CGT cost base resetting & deferral – impact with other members, over TBC;

c) Reversionary pension – excess TBC, 12 mths to action;

d) TRIS no longer tax free in super fund, but still might provide effective supplement to income prior to retirement;

e) Consider rebalancing spouse super balances especially where one exceeds TBC;

f) Trust deed reviews should be conducted to accommodate the operation of the new regulations;

g) Estate planning reviews in light of the impact of these new super regulations.

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SC Accounting Services

SC Accounting has a dedicated accounting, business and investment advisory team to guide you through these superannuation reforms. Our Principal Steve Creelman, with more than 17 years in the SMSF & Investment advisory sector, holds a CA SMSF Specialisation as well as an Advanced Diploma in Financial Planning. In order to provide you with a complete SMSF service and remain at the forefront of changes to superannuation, our accounting professionals all hold requisite Financial Planning qualifications.

Superannuation is a specialist field and you need to partner with specialists to achieve to right outcome. At SC Accounting we are SMSF specialists licensed under the AFSL regulatory regime to provide Comprehensive Financial Advice solutions. Our dedicated team of professionals will be able to provide the right advice focusing on wealth accumulation.

Our licensed financial advisory entity, SC Wealth Creation Pty Ltd can provide a full suite of investment advisory services including:

- ✓ financial advice,
- ✓ investment and product advice in shares (local and international),
- ✓ insurance products
- ✓ financing
- ✓ retirement planning
- ✓ succession planning.

Whilst other accountants can assist in preparing your SMSF account, they may lack a detailed understanding of the taxation laws applicable to the SMSF environment. Be assured that CA SMSF Specialists have completed rigorous training to be deemed competent in all aspects of providing SMSF advice. Steve manages all superannuation relationships, and will review your SMSF to ensure that it is working the way you want it to work – with a heavy focus on capital protection, wealth creation and tax efficiency.

Super Reforms - What we can do!!

With the recent raft of superannuation reforms fast approaching, we have developed comprehensive review tools to help identify, guide and plan for the changes in order to ensure that not only will your super fund remains compliant, but also operates tax efficiently and effectively. Should you have any queries or concerns, we encourage you to make a booking to discuss the impact that the new super reforms will have on you and your fund. Do not act too late, and regret the missed opportunity!!

Qualified Professionals

- ✓ Steven Creelman – principal at SC Accounting and a chartered accountant with over 30 years senior financial executive and principal practice experience including over 17 years in the financial services industry. (Qualifications BBus(Acc), CA, CA SMSF Specialist, Advanced Diploma in Financial Planning)
- ✓ Mark Caruso – Partner at SC Accounting and a CPA with over 15 years in financial services and public practice including CFO for an APRA regulated Public Offer Super Fund (Qualifications Bus (Accounting & Banking and Finance), DipBus)
- ✓ Harry Mak – accountant with over 2 years' experience in public practice as well as an interest in SMSF and financial advisory (Qualifications BBus (Acc & Econometrics), DFP)

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