Federal budget super changes 2016

May 2016

australia

the next solution

Disclaimer

Material contained in this presentation is a summary only and is based on information believed to be reliable and received from sources within the market. It is not the intention of Nexia Court Financial Solutions Pty Ltd ABN 88 077 764 222 Australian Financial Services Licence Number 247300 that this presentation be used as the primary source of readers' information but as an adjunct to their own resources and training. No representation is given, warranty made or responsibility taken as to the accuracy, timeliness or completeness of any information or recommendation contained in this publication and Nexia Court Financial Solutions will not be liable to the reader in contract or tort (including for negligence) or otherwise for any loss or damage arising as a result of the reader relying on any such information or recommendation (except in so far as any statutory liability cannot be excluded). This presentation has been prepared for general information and not having regard to any particular person's investment objectives, financial situation or needs. Accordingly, no recommendations (express or implied) or other information should be acted upon without obtaining specific advice from an authorised representative. Please note past performance may not be indicative of future performance.

Key proposed changes to superannuation

- Reduction in concessional contribution cap
- Lifetime non-concessional contribution cap
- Pension transfer balance cap
- Tax on earnings for transition to retirement pensions
- Reduction in Division 293 tax threshold
- Other key proposed super changes

Reduction in concessional contribution (CC) cap

Proposed effective date: 1 July 2017

- CC Cap to be reduced to $25,000
- CC Cap applies to all members under age 75
- Unused CC caps can be carried forward for up to 5 years for members with account balances less than $500,000.

Reduced CC Caps – Potential Strategies

- Spouse splitting
- Utilising $125,000 deduction in year with higher income
- Contribution Reserving
- Use it or you will lose it!

Lifetime non-concessional contribution (NCC) cap

Proposed effective date: 7:30pm on 3 May 2016

- Limits NCC's to a lifetime cap of $500,000
- All NCC's since 1 July 2007 are applied against the cap
- NCC's made prior to budget night will not result in excess NCC
- NCC's made after budget in excess of lifetime cap will need to be withdrawn &/or penalty taxes will apply.

Lifetime NCC Cap – Potential Strategies

- Make NCC's in accordance with the current rules
- Enter into a Limited Recourse Borrowing Arrangement
- Contribute up to lifetime cap of $500,000 if under 75
- Re-contribution strategy

Pension transfer balance cap

Proposed effective date: 1 July 2017

- $1.6m cap on pension commencement amount
- For existing pensions, amount in excess of $1.6 million cap will need to be rolled back to accumulation or withdrawn
- Unused cap can be applied at a later time
- Earnings derived by pension account will not reduce the cap

$1.6m Pension Cap – Potential Strategies

- Segregate assets
- Even out member balances
- Reset cost bases
- Restructure wealth across various entities

$1.6m Pension Cap – Case Study

- John is 70 years old
- Has a super balance of $2m
- Holds no assets outside of super and earns no income in his individual name
- Assume a net return on investments of 4%

How can restructuring John's wealth save tax?

$1.6m Pension Cap – Case Study

Scenario 1: Leave entire wealth in Super

- Earnings of $64,000 on $1.6m in pension is tax free.
- Earnings of $16,000 on $400,000 in accumulation is taxed at 15%, which equates to $2,400 tax payable.

Scenario 2: Withdraw excess of $400,000 above $1.6m pension cap from Super and invest in John's name

- Earnings of $64,000 on $1.6m in pension is tax free.
- Earnings of $16,000 on $400,000 in John's name is not taxed as it is below the $18,200 tax free threshold.

Scenario 2 results in a tax saving of $2,400 for John!

Tax on earnings for transition to retirement (TTR) pensions

Proposed effective date: 1 July 2017

- Tax exempt status of income from assets supporting TTR income streams will be removed
- Earnings will be taxed at 15%
- This applies irrespective of when the TTR income stream commenced, i.e. no grandfathering applies
- Taxation of earnings in pension phase will only apply to TTR income stream. Clients that have met a full condition of release such as retirement will continue to have the earnings tax exemption apply

Transition to retirement pensions

Example

- Rebecca aged 60
- $400,000 in super
- Earnings $100,000, but spends $73,000
- Only receiving SG

Transition to retirement pensions

Rebecca	Current	With TTR
Salary	$100,000	$84,500
Salary sacrifice	$0	$15,500
Pension income (tax free)	$0	$9,568
Total tax	$26,632	$20,700
Expenses	$73,000	$73,000
Remaining income	$368	$368
Net contributions (inc SG of $9,500)	$8,075	$21,250
Total increase in superannuation*	$408,075	$411,683
Total benefit		**$3,608**

Excludes any earnings tax

Cost/benefit analysis on a case by case analysis is required

Reduction in Division 293 tax threshold

Proposed effective date: 1 July 2017

- Division 293 threshold will reduce to $250,000 (from $300,000)
- When Division 293 applies, contributions are taxed at 30%
- The following table compares the tax concessions applicable on concessional contributions at various marginal tax rates

Marginal tax rate*	Contributions Tax	Tax Concession
21%	15%	6%
34.5%	15%	19.5%
39%	15%	24%
49%	15%	34%
49%	30%**	19%

*Including Medicare Levy and Temporary Budget Repair Levy
**Includes additional 15% contributions tax (Division 293)

Tax offset for spouse contributions

Proposed effective date: 1 July 2017

- The income threshold to qualify for the maximum amount of Low Income Spouse Contribution Tax Offset will be increased from $10,800 to $37,000
- The ability to make spouse contributions will also be extended to age 74. Again, no work test will be required to be satisfied by the receiving spouse

Remove contribution eligibility requirements for those aged 65 to 74

Proposed effective date: 1 July 2017

- Work test that applies for people making voluntary contributions between 65 - 74 will be removed
- The ability to make spouse contributions will also be extended to age 74. Again, no work test will be required to be satisfied by the receiving spouse

Expanded ability to clam a tax deduction on personal contributions

Proposed effective date: 1 July 2017

- Anyone up to age 75 will be able to claim a tax deduction on personal contributions to super
- Currently only unemployed, retired, self-employed (e.g. sole traders), or those who derive less than 10% of total income from employment source are eligible to claim a tax deduction
- Proposed measure will effectively allow all individuals, regardless of their employment circumstances, to claim a deduction for their personal contributions up to the value of the concessional cap

Tax offset for low income earners

Proposed effective date: 1 July 2017

- The Low Income Superannuation Tax Offset (LISTO) will reduce tax on superannuation contributions for low income earners
- The LISTO will provide a non-refundable tax offset for concessional contributions made on behalf of individuals who have adjusted taxable income up to $37,000
- The LISTO will be capped at $500

Removal of anti-detriment payments

Proposed effective date: 1 July 2017

- Anti-detriment provisions will be abolished
- An anti-detriment payment is an additional amount that may be included in a lump sum death benefit paid to eligible beneficiaries (it represents a refund of contributions tax paid by the deceased member over their lifetime)
- Taxation of death benefits will remain unchanged and will therefore continue to be paid tax free to tax dependants and taxable to non-tax-dependants

Contact Details

- Darren Chinnappa
  Email: dchinnappa@nexiacourt.com.au

- Sylvia Liang
  Email: sliang@nexiacourt.com.au

- Phone: (02) 9251 4600

- Website: www.nexia.com.au

Thank you