

SPECIAL POINTS OF INTEREST:

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SUPERANNUATION AND THE UPCOMING FEDERAL BUDGET

In this special pre-Budget edition, we discuss **possible** changes the Government may make to the superannuation system.

INFO—At the time of writing, no official changes to superannuation have been announced ahead of this year's Federal Budget.

Superannuation to change?

The Government has recently undertaken a number of reviews:

- the Murray Financial System Inquiry Report ('Murray Report'); and
- the Government's tax discussion paper entitled 'Re:think'.

These reviews included a number of observations about the taxation of superannuation, which could influence decisions in the Federal Budget to be handed down in May 2016. Issues raised by these reports include:

Issue 1: Different fund tax rates

Superannuation fund earnings (including those of an SMSF) are taxed more concessional in pension phase, compared to accumulation phase (exceptions apply):

- accumulation phase – 15%; and
- pension phase – Nil.

The Murray Report noted that this tax rate difference can have 'adverse effects', including the creation of tax planning opportunities.

What could change? The Government could align the accumulation and pension phase tax rates at 15%. The Government may also place greater restrictions around drawing down a pension and limit associated tax planning opportunities.

Issue 2: Large account balances

The Murray Report noted high income

earners can use superannuation for tax-effective wealth management and estate planning strategies. Two options were put forward to limit the superannuation tax concessions for individuals with high superannuation balances:

Option A: Reduced NCC cap

According to the Murray report, a reduction in the non-concessional contributions cap reduces the ability of individuals to accrue very large superannuation balances. Broadly, this cap is currently \$540,000 over three years for individuals under 65.

However, the Report did note that a lower cap would reduce the ability of individuals to save for retirement at different stages of their lives. Similarly, individuals with broken work patterns could be adversely affected by a reduced cap.

What could change? If adopted, the three-year non-concessional contributions cap could be reduced from \$540,000 (for individuals under 65). Restrictions could also be placed on 'withdrawal and re-contribution strategies'. More flexible caps may be introduced for individuals with broken work patterns.

Option B: Extra tax on high balances

A second option identified by the Murray Report is to increase tax on individuals with high superannuation balances. This extra tax could be levied on the fund or the individual personally. However, levying the tax on superannuation funds would most likely result in high compliance costs. The Report noted that the higher earnings rate could be levied on individuals outside of the fund instead.

What could change? If adopted, individuals with a superannuation balance above a certain limit could be taxed at a higher rate on their superannuation earnings.



“The current superannuation laws provide opportunities to grow your superannuation savings”

“Strategies outlined below with a higher risk of change are:

- *withdrawal and re-contribution; and*
- *commencing a transition to retirement income stream.”*

YEAR-END SUPERANNUATION PLANNING

The current superannuation laws provide opportunities to grow your superannuation savings. We outline some planning considerations below.

WARNING—These year-end planning points may change with the Federal Budget. Strategies outlined below with a **higher risk** of change are:

- withdrawal and re-contribution; and
- commencing a transition to retirement income stream.

Accumulation phase strategies

Key superannuation strategies for increasing superannuation savings are outlined below.

Item	Description
‘Cashless contributions’	You are generally permitted to transfer commercial property or publicly listed shares into your SMSF. You can make the contribution without transferring title—meaning you do not need to contribute money. Any tax issues (e.g. CGT) need to be considered.
Withdrawal and re-contribution	You can re-contribute superannuation benefits received (i.e. as a lump sum or pension, where eligible) back into your SMSF. The strategy converts the ‘taxable component’ into the ‘tax free component’.
Salary sacrifice	Check with your employer well in advance if you wish to forgo part of your salary in return for additional superannuation as you can only salary sacrifice unearned income.
Low Income Superannuation contribution	You may qualify for a government superannuation payment of up \$500 for low income earners (individual with ‘income’ of \$37,000 or less). The contribution is 15% of your concessional contributions for the year.
Sale of a business asset	Superannuation contributions made from disposing of an asset used in your small business may qualify for an additional cap called a ‘CGT cap’.

Co-contribution	You may qualify for the Government contribution of up to \$500 if you earn less than \$50,454 (2016 income year) and make after-tax contributions.
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Note the following points when contributing to superannuation:

- **Work test** – if you are 65+, but under 75, you need to be ‘gainfully’ employed for 40 hours in 30 consecutive days before contributing.
- **Contribution limits** – check your contributions are within your applicable limits.

Pension phase strategies

Key superannuation strategies for SMSF members in pension phase are outlined below.

Item	Description
Transition to retirement income stream	Consider salary sacrificing into superannuation and drawing down a TRIS to supplement your income (you must be at least 56).
Minimum pension payment	Ensure your fund satisfies its minimum pension payment obligation. Fund earnings on assets supporting the pension will generally not be exempt for the entire income year if your fund fails to meet this requirement.

Change in circumstances

A change in your personal circumstances may require a review of your superannuation matters to check that everything is in order.

Item	Description
Divorce	Your superannuation death benefit wishes may need to be updated.
Death of a member	The deceased’s benefits need to be paid out of the fund in a timely manner.
Ill member	Ensure your fund continues to meet its superannuation obligations (e.g. minimum pension payments). Terminally ill members may be eligible to withdraw their superannuation benefits.



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