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SMSF NEWSLETTER

May 2016

SPECIAL POINTS OF INTEREST:

1. **Across-the-board changes to superannuation proposed**
2. **Significant changes expected to the contribution rules**
3. **Pension exemption likely to be limited**

INSIDE THIS ISSUE:

SWEEPING CHANGES TO SUPERANNUATION ANNOUNCED IN THE 2016-17 FEDERAL BUDGET

In this special edition, we outline the sweeping superannuation changes proposed by the Government in the 2016-17 Federal Budget.

> **INFO**–At the time of writing, the superannuation proposals in the Federal Budget are not law. Also, further changes to these proposals could be made, depending on factors such as whether the current Government is re-elected.

Reduced concessional contributions cap

Currently, the **general** concessional contributions cap is $30,000 (indexed) for the 2016 income year. However, individuals aged at least 49 on 30 June 2015 are entitled to a higher concessional contributions cap of $35,000 for the 2016 income year.

The Government intends to reduce the concessional contributions cap to $25,000 for **all individuals** from 1 July 2017. Based on this proposal, the concessional contributions caps will be:

Age on last day of prior income year	2016 + 2017 income years	2018 income year (proposed)
49+	$35,000	$25,000
<49	$30,000	$25,000

Catch-up concessional contributions

Currently, the concessional contributions cap operates on a ‘use it or lose it’ basis. That is, any unused cap balance cannot be carried forward to future income years.

The Government intends to introduce a new five-year rolling concessional contributions cap from 1 July 2017. This new cap, if introduced, will allow individuals with superannuation balances below $500,000 to carry forward unused concessional cap amounts for up to five years. Eligible individuals could then make catch-up payments, where possible.

This proposal is aimed at individuals with broken work patterns (such as mothers or carers) who have been unable to fully utilise their concessional contribution cap to build substantial retirement savings.

> **INFO**–You could benefit from the proposed rolling cap if your superannuation savings are below $500,000 and you do not fully use your full concessional contributions cap. However, only unused cap amounts accruing from 1 July 2017 can be carried forward.

Lifetime non-concessional contributions cap

Currently, individuals under 75 have a non-concessional contributions cap of $180,000 (or, broadly, $540,000 every three years for those under 65). Effective from 7.30pm on 3 May 2016, the Government proposes to:

- **completely remove** the existing annual non-concessional contributions cap of $180,000 (including the $540,000 cap under the three year ‘bring forward’ rule for individuals under 65); and
- replace it with a **lifetime**, indexed non-concessional contributions cap of $500,000 for **all individuals up to age 74**.

Excess contributions over this cap are expected to be taxed at penalty rates, unless removed from the superannuation fund.

> **INFO**–All non-concessional contributions made since 1 July 2007 are to count towards the proposed lifetime cap, according to the proposal. However, transitional rules are expected to provide that non-concessional contributions made before 7.30pm on 3 May 2016 cannot give rise to excess contributions.

"...cap the pension account to a maximum of $1.6m (indexed) per individual."

"The Federal Government intends to abolish this 'work test' from 1 July 2017."

2016-17 FEDERAL BUDGET – SUPERANNUATION

We continue our coverage of the superannuation changes announced in the Budget.

Tax exemption on pension earnings to be restricted

Currently, fund earnings from assets supporting a pension are tax exempt. Broadly, the Government is expected to limit the pension exemption within funds from 1 July 2017, as follows:

- **transition to retirement income stream** – completely abolish the tax exemption on earnings from assets supporting a TRIS. Hence, from 1 July 2017, fund earnings on assets supporting a TRIS will generally be taxed at 15%; and
- **account-based pensions** – cap the maximum transfers to pension phase at $1.6m (indexed) per individual. Broadly, superannuation savings over this cap can be retained in accumulation phase (but earnings will be taxed at 15%).

Importantly, these proposals, if enacted, will also apply to **existing pensions** in place on 1 July 2017.

INFO–The Government also intends to remove a loophole that currently allows pension recipients under 60 to treat taxable pension payments as tax free lump sums. This change is expected to apply from 1 July 2017.

High income earners – threshold reduced to $250,000

Currently, very high income earners must pay an additional 15% tax (known as 'Division 293 tax') on concessional contributions over a $300,000 threshold. In brief, the threshold is determined by adding together your:

- 'income', which not only includes your taxable income, but amounts such as 'net investment losses' (i.e., resulting in 'negative gearing' losses being added back for this calculation); and
- concessional contributions (e.g., superannuation guarantee amounts and salary sacrificed contributions).

The Government intends to reduce this income threshold from **$300,000 to $250,00** from 1 July 2017.

'10% rule' to be abolished

Under the existing rules, you cannot personally claim a deduction for superannuation contributions made unless you meet the '10% rule'.
In brief, this rule restricts personal superannuation claims to individuals who receive little or no superannuation support from their employer.

From 1 July 2017, the Government proposes that **all individuals under 75** be entitled to claim personal superannuation contributions in their 'individual' tax return – irrespective of whether employer superannuation support is received.

'Work test' to be scrapped

Individuals aged 65 to 74 must generally currently meet the 'work test' before non-compulsory contributions can be accepted by a superannuation fund. This test requires an individual work at least 40 hours in 30 consecutive days during an income year that contributions are received.

The Federal Government intends to abolish this 'work test' from 1 July 2017. If enacted, a fund will generally be permitted to accept contributions for **all individuals aged under 75** – regardless of their work status.

Other Budget proposals

Other proposals expected to apply from 1 July 2017 include:

- extending eligibility for the low income spouse superannuation tax offset by raising the income threshold for the low income spouse from $10,800 to $37,000. This offset, payable to the contributing spouse, is 18% of after-tax contributions (up to $540).
- removing the ability of a fund to claim an 'anti-detriment' deduction; and
- introducing a contributions tax refund (up to $500) for individuals earning up to $37,000 (payable to the fund).

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