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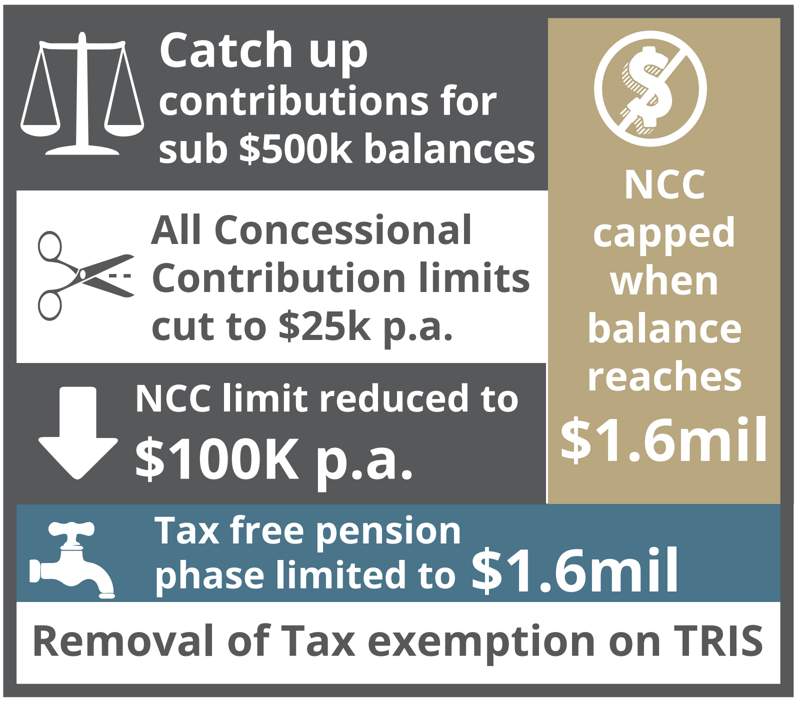
Superannuation Changes Snapshot

The numerous changes to the superannuation system, first proposed in the Federal Budget in May 2016, have passed through Parliament with seemingly little debate and no major surprises. As none of the changes take effect until at least 1 July 2017 everybody now has the rest of the financial year to understand how they will be impacted and what steps they should be taking.

A snapshot of the superannuation and retirement changes to take effect in the future are:



Concessional contribution limit slashed

The annual cap on contributions entitled to the concessional tax rates has been reduced to $25,000 for everybody, from the current $30,000 for under-50s and $35,000 for those aged 50-plus.   This will apply from 1 July 2017.

Non-concessional contribution cap

The controversial non-concessional contribution (NCC) lifetime cap has been scrapped and instead will be replaced with a reduced annual limit of $100,000. This will apply from 1 July 2017. The opportunity for people aged under 65 to “bring forward” two additional years’ worth of NCC cap is also still available. Another important change is the restriction on anyone with a total superannuation balance of greater than $1.6 million from making further NCC.

Superannuation transfer balance cap

A superannuation transfer balance cap introduced which limits the total superannuation an individual can transfer into retirement phase at $1.6 million. This will apply from 1 July 2017 and will include current retirees as well as those yet to enter retirement phase. Any amounts in excess of $1.6 million will have to be transferred to accumulation and subject to 15% tax on earnings. Transitional CGT relief may apply for people with existing pensions providing the opportunity to reset the cost bases of their assets.

Lower income limit for extra contributions tax

People with combined income and superannuation contributions of greater than $250,000 will pay 30% tax on their concessional contributions. This lowers the current level of income applicable to this tax rate from $300,000.

Low income superannuation tax offset

This will replace the Low Income Superannuation Contribution which is set to finish on 30 June 2017. This will allow individuals with an adjusted taxable income of $37,000 or less to receive an effective refund of the tax paid on their concessional contributions up to a cap of $500.

Increased access to concessional contributions

All individuals under the age of 75 will be able to claim tax deductions for personal superannuation contributions from 1 July 2017. This removes the current restriction on employees making concessional contributions for which they can claim a personal tax deduction allowing everyone to have the same opportunities to contribute.

Catch-up of concessional contributions

Unused concessional contribution caps can be carried forward on a rolling basis for up to five years for those with account balances of $500,000 or less. This will allow people with changing circumstances or interrupted work patterns to boost their superannuation through catch-up contributions. The date of effect for this has been delayed to 1 July 2018.

Change to Transition to Retirement Income Streams

The tax exemption on earnings supporting a Transition to Retirement Income Stream (TRIS) will be removed from 1 July 2017. Currently these earnings are tax-free but they will be taxed at the standard tax rate of 15% moving forward. Essentially, while these arrangements can remain in place, they lose their tax effectiveness. There is "grandfathering" provision for existing TRIS'. Importantly, those people with TRIS may also be able to access the transitional CGT relief.

Further to this, individuals will no longer be able to treat these income stream payments as lump sums for tax purposes.

Other Measures

- The proposed abolition of the "work-test" is not proceeding
- Anti-detriment provisions will be removed
- Income threshold for spouse contribution offset increased from $10,800 to $37,000
- Enshrining of "objective of superannuation" in legislation has been delayed

While these changes are extensive we can now only hope that there is certainty moving forward, allowing people to regain confidence in the system and feel secure with their retirement plans.

It is important that everybody now assesses their situation and seeks advice where needed prior to 30 June 2017 to ensure they are prepared for the changes.

Hanrick Curran are well place to assist all clients to understand how these changes impact their retirement plans. Please speak with your usual Hanrick Curran adviser to arrange a time to discuss the options available to you prior to superannuation rule changes coming into effect.

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