2016 SUPER BUDGET CHANGES

FEBRUARY 2017

Legislation implementing the superannuation reform package announced in the 2016 Federal Budget was introduced in November 2016. The various reforms are summarised below, with most due to be implemented by 1 July 2017. Please contact your financial planner, the Australian Taxation Office (ATO) or visit ato.gov.au for more information.

Reforms

Contributions

- Non-concessional (post-tax) contributions cap
- Concessional (pre-tax) contributions cap
- Carry-forward concessional contributions of unused caps over five years
- Personal super contributions deduction
- Spouse tax offset
- Division 293 threshold

Income stream changes

- $1.6 million transfer balance cap for pension phase accounts
- Improving the integrity of retirement income streams

Other

- Low income super tax offset contribution (LISTO)
- Removal of anti-detriment payment
- Innovative retirement income stream products

Contributions

Non-concessional (post-tax) contributions cap

From 1 July 2017, the annual non-concessional (after tax) contribution cap will be reduced from $180,000 to $100,000 per year for eligible members. The cap will be indexed each year in line with the concessional contributions caps (as described further below).

There is capacity to bring forward one or two years of non-concessional contributions ($200,000 cap over two years or $300,000 cap over three years) if an individual is under 65 years old. The number of years and the amount available to bring forward depends on the superannuation balance on 30 June of the previous financial year in which the contributions triggering the bring forward were made. The bring-forward is not available to individuals between 65 and 74 years old.

Individuals with a total superannuation balance above $1.6 million at 30 June of the previous year will no longer be eligible to make non-concessional contributions.

Concessional (pre-tax) contributions cap

Currently, individuals can make concessional (pre-tax) contributions up to $30,000 ($35,000 for people 50 years old and over) within a financial year.

From 1 July 2017, the government will lower the annual concessional contributions cap to $25,000 for all individuals regardless of age. The cap will index in line with the average weekly ordinary time earnings (AWOTE) in increments of $2,500.

Carry-forward concessional contributions of unused caps over five years

From 1 July 2018, individuals will be able to make 'carry-forward' concessional super contributions if they have a total superannuation balance of less than $500,000. They will be able to access their unused concessional contributions cap space on a rolling basis for five years. Amounts carried forward that have not been used after five years will expire.

The first year in which you can access unused concessional contributions will be the 2019-20 financial year.

Personal super contributions deduction

Currently, an individual (primarily self-employed) can claim a deduction for personal super contributions where they meet certain conditions. One of these conditions is that less than 10% of their income is from salary and wages.

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From 1 July 2017, this condition will be removed, meaning that anyone who is eligible to make voluntary super contributions will also be eligible to make personal concessional (tax deductible) contributions to accepting funds. All other conditions remain the same.

Spouse tax offset

Currently an individual can claim a tax offset up to a maximum of $540 for contributions they make to their spouse's eligible super fund if the total of the spouse's income (assessable income, reportable fringe benefits amounts and reportable employer super contributions) is under $13,800.

Under the new rules the receiving spouse can have total income not exceeding $37,000 in order for the maximum offset to apply – a partial offset may apply where the receiving spouse has a total income of less than $40,000.

Individuals will not be entitled to the tax offset when the spouse receiving the contribution has exceeded their non-concessional contributions cap for the relevant year, or has a total superannuation balance equal to or exceeding the transfer balance cap immediately before the start of the financial year in which the contribution was made.

Division 293 threshold

Currently individuals with income and concessional super contributions in excess of $300,000 are subject to Division 293 tax.

From 1 July 2017, the government will lower the Division 293 income threshold to $250,000. An individual with income, and concessional super contributions, exceeding the $250,000 threshold will have an additional 15% tax imposed on the amount over the threshold, up to the total amount of concessional contributions not exceeding their concessional contributions cap.

Income stream changes

$1.6 million transfer balance cap for pension phase accounts

From 1 July 2017 a new transfer balance cap of $1.6 million will be introduced on the total amount that can be transferred from the accumulation phase of superannuation to retirement phase for account-based pensions.

This reform is designed to limit the amount of benefits a client can transfer into the tax free retirement phase.

The balance of an existing retirement phase income stream as at 30 June 2017 along with the initial value of any new retirement phase income stream commenced after 1 July 2017, will be measured against an individual's personal transfer balance cap. Any amounts above the $1.6 million cap will need to rolled back to accumulation phase or completely removed from the superannuation system.

Improving the integrity of retirement income streams

Transition to retirement income streams (TRIS) are currently available to assist individuals to gradually move to retirement by accessing a limited amount of super. Currently, where a member receives a TRIS, the fund receives tax free earnings on the super assets that support it.

From 1 July 2017, the tax-exempt status of earnings from assets that support a TRIS will no longer apply. Earnings from assets supporting a TRIS will be taxed at 15% regardless of the date the TRIS commenced.

Members will also no longer be able to treat super income stream payments as lump sums for taxation purposes.

Other

Low income super tax offset contribution (LISTO)

The government will introduce a Low Income Superannuation Tax Offset (LISTO), which will replace the Low Income Superannuation Contribution (LISC) policy that will be abolished from 1 July 2017.

From 1 July 2017, eligible individuals with an adjusted taxable income up to $37,000 will receive a LISTO contribution to their super fund. The LISTO contribution will be equal to 15% of their total concessional (pre-tax) super contributions for an income year, capped at $500.

Removal of anti-detriment payment

Under the current rules, where a lump sum death benefit is paid to a spouse, former spouse, or child, the fund may increase the death benefit by paying an anti-detriment payment.

This payment can be calculated in a number of ways, but is often equal to 17.65% of the deceased client's taxable component.

Under the changes, superannuation funds will no longer be able to pay anti-detriment payments where the deceased died on or after 1 July 2017.

Where a member died prior to 1 July 2017, a fund can still pay an anti-detriment payment on or after 1 July 2017, so long as its paid prior to 1 July 2019.

Innovative retirement income stream products

Currently there are rules restricting the development of new retirement income products.

From 1 July 2017, the Government will remove these barriers by extending the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self-annuitisation products.

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