Business Client Newsletter

SPECIAL REPORT

SUPERANNUATION CHANGES NEWSLETTER

With a raft of changes announced in last year's Budget coming into effect on 1 July, the Government has made few but significant changes this year. Have you investigated how the super changes will affect your superannuation and retirement plans for the 2017/2018 year, and for future financial years? If not then now is the right time to start.

A summary of the latest superannuation changes, which took effect from the start of the 2017/2018 year, is set out below.

First home super saver scheme

One big change announced after much speculation, is there will be assistance given to first home buyers.

The Government has announced the introduction of the **First Home Super Savers Scheme from 1 July 2017** where savers can contribute from their before-tax income into their super fund and be taxed at the 15% super tax rate.

First home buyers can contribute up to $15,000 pa to this scheme to a total of $30,000 per person.

NB the overall cap of $25,000 still remains for voluntary contributions to your super So if you have contributed $15,000 into your super for a home deposit, you will only be allowed to contribute $10,000 for your long-term super during that year.

When this money is withdrawn as a deposit for a first home it will be taxed at the marginal rate with a 30% offset. Note, only contributions identified as part of the scheme, and the deemed earnings on these contributions can be withdrawn.

Withdrawals will be allowed from 1 July 2018.

- From 1 July 2018, older Australians will be encouraged to downsize to increase the supply of homes for first home buyers. Australians 65 or over will be able to make an after-tax contribution of up to $300,000 from their home sale. Both partners in a relationship can do this meaning combined a couple can contribute up to $600,000 to their super.

- Conditions are that the couple must have held their home for at least 10 years and that it is the primary place of residence. This will be classified as an additional super contribution and will not be subject to caps.

Concessional superannuation contributions cap reduced

From 1 July 2017, the concessional (before-tax) contributions cap will be reduced to $25,000. This applies to both SG and salary sacrifice contributions, which means the total of these two types of contributions count towards this cap.

Concessional superannuation contributions tax threshold reduced

The threshold at which high-income earners pay Division 293 tax on their concessionally taxed contributions to superannuation was reduced from $300,000 to $250,000 p.a.

Non-concessional contributions cap reduced and criteria introduced

The annual non-concessional contributions cap was reduced from $180,000 to $100,000 p.a. In addition, criteria for an individual to be eligible for the non-concessional contributions cap was introduced and other minor amendments to the non-concessional contributions rules were made.

Low Income Superannuation Tax Offset to replace the Low Income Super Contribution

The Government will introduce a Low-Income Superannuation Tax Offset (LISTO) from 1 July 2017 which will replace the Low-Income Superannuation Contribution (LISC). Those earning $37,000 or less who make a concessional (pre-tax) contribution to their super will receive a tax benefit capped at $500 to offset the contributions tax paid.

The ATO will assess whether you are eligible for the LISTO based on your tax adjustable income and will let your super fund know whether you will receive the payment each year.

Changes to earnings tax exemptions

From 1 July 2017 the government will remove the tax-exempt status of earnings that support the transition to retirement income stream (TRIS). From 1 July 2017, earnings on the assets supporting the TRIS will be taxed at 15%.

The government will also remove a rule that allows individuals to treat certain superannuation income stream payments as lump sums for tax purposes.

There are now tax exemptions for earnings from "innovative" retirement products such as deferred lifetime annuities and group self-annuitisation products.

Greater deductibility of personal contributions

The requirement that an individual must earn less than 10 per cent of their income from employment to be able to deduct a personal contribution to their super was removed.

Super Guarantee rate increase changes were previously legislated to increase according to the following timetable

The Super Guarantee contribution rate is set to reach 12% in 2025.

Financial year	Rate
2015/16	9.5%
2016/17	9.5%
2017/18	9.5%
2018/19	9.5%
2019/20	9.5%
2020/21	9.5%
2021/22	10.0%
2022/23	10.5%
2023/24	11.0%
2024/25	11.5%
2025/26	12.0%

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Allowing ‘catch-up’ concessional contributions

From 1 July 2018, individuals whose superannuation balance at the end of the previous financial year is less than $500,000 will be able to carry forward unused concessional cap amounts from the previous five years. This applies to working out an individual’s concessional contributions cap from the 2019-20 financial year onwards.

More tax offsets for spouse contributions

From 1 July 2017, the Government will extend the eligibility rules for claiming the tax offset for super contributions made to low income spouses.

The current 18% tax offset of $540 will be available for anyone married or de facto, contributing to a **spouse whose income is up to $37,000.** The offset is reduced for income above this level and phased out at income above $40,000.

*No tax off set is available when the spouse receiving the contribution has exceeded their after-tax cap or their super balance is $1.6m or higher.

*There are no changes to the age-based contribution rules. The spouse receiving the contribution must be **under age 70 and meet a work test if aged 65-69 years.**

Self-managed Superannuation Funds

From 1 July 2017, the use of Limited Recourse Borrowing Arrangements (LBRA's) will be included in a member's total super balance and transfer balance cap. The outstanding loan will now be included in a member's total super balance.

Also, the repayment of the principle and interest of a LRBA from a member's accumulation account will be credited in the member's transfer balance account.

LBRA's had been used to dodge super caps and transfer growth in assets from the accumulation to pension phase without being captured by the transfer balance cap of $1.6m. In effect this will make some SMSF members think twice about taking on a LRBA to invest in property, as this may trigger the $1.6 million transfer balance cap in retirement.

Transfer balance cap

A $1.6 million cap was introduced on the amount that can be transferred to super in retirement phase when earnings are tax-free. Additional savings can remain in an accumulation account (where earnings are taxed at 15 per cent) or remain outside super. This came into effect on 1 July 2017 and will be indexed in following years. Retired people with retirement phase income streams between $1.6 and $1.7 million on 1 July 2017 will have 6 months from 1 July 2017 to bring their balances under $1.6 million without penalty. If your retirement phase income streams (transfer balance) remains in excess of the transfer balance cap on 1 January 2018, you may have to pay excess transfer balance tax.

Proposed Changes

Superannuation changes - Federal Budget 2018/19

Changes to superannuation were announced in the Federal Budget on 8 May 2018. These super changes are not yet law but it is well worth considering how your plans might be affected. The proposed changes include:

Fees

- A cap on admin and investment fees on low balance super accounts (with less than $6,000) at 3% to prevent low super balances from being eroded by fees. This may see fees reduce for some fund members.
- A ban on all super fund exit fees. According to APRA, super members lost approximately $52m in exit fees in 2016/17.

Insurance

Insurance within super to be opt-in rather than default for members under 25, members with balances of less than $6,000 and members whose accounts have not received a contribution in 13 months and are inactive. A number of Industry Super Funds have already taken steps to change insurance coverage for younger members. It will be important to ensure no workers are left without insurance, such as new entrants to the workforce, women on extended maternity leave or low balance workers in high risk jobs. This change is likely to impact the insurance arrangements within super and is proposed to take effect from 1 July 2019.

Auto-consolidation

All super accounts that have not received a contribution for 13 months, with balances below $6,000, to be classified as inactive and transferred to the ATO and for the ATO to attempt to proactively reunite those accounts with a member's active account. Accounts not auto-consolidated will go to consolidated revenue until validly claimed. These changes may have implications for seasonal and other irregular workers. You will be able to inform your fund that whilst you are not making contributions you wish your monies to remain in your fund. You can currently seek to consolidate your super, for more information click here. The measure starts 1 July 2019.

ATO to monitor 'Notice of Intent' requirements

Tightening rules for tax deductions on personal contributions to ensure super fund members who receive a tax deduction on personal super contributions are completing 'Notice of Intent' forms. The measure commences on 1 July 2018.

Allowing retirees to work more

The Pension Work Bonus to increase to $300 per fortnight (an additional $50). This allows pensioners to earn up to $300 each fortnight without reducing their Age Pension payments. The measure also extends coverage to self-employed members. Commences 1 July 2019.

Allowing retirees to make voluntary contributions in the first year of retirement

Retirees aged between 65 and 74 with a superannuation balance below $300,000 will be allowed to make voluntary super contributions for the first year that they no longer meet the work test requirements.

Pension Loan Scheme

Expansion of the Pension Loan Scheme to allow Aged Pensioners to boost their income with a loan from the government against the equity in your home. $11,799 for singles or $17,787 for couples per year can be paid in fortnightly payments to supplement existing income. These payments are a loan with the government, attract interest and need to be repaid from sale proceeds of your house or can be repaid at any time.

High income earners

High income earners (individuals who earn more than $263,157 a year) with multiple employers will be able to make wages from certain companies exempt from the Superannuation Guarantee (SG) to avoid breaching the Concessional Contributions Cap.

Self-managed super funds

The maximum number of trustees allowed in a self-managed super fund will be raised from four to six, and from July next year the government will allow funds with "a history of good record-keeping and compliance" to obtain an audit once every three years instead of annually.

The Government will also change the annual SMSF audit requirements to a three-yearly requirement for SMSFs with a history of good record keeping and compliance. The measure will start on 01 July 2019 for SMSF trustees that have a history of three consecutive years of clear audit reports and that have lodged the fund's annual returns in a timely manner.

No change to legislated SG Increase

The Budget did not make any changes to the legislated increase in the SG beginning with an increase from 9.5 per cent to 10 per cent on 1 July 2021.

Unpaid Super

On September 14th 2017 the Federal Government introduced a bill that will seek to close a legal loophole that allows employers to short change employees who make extra salary sacrifice super contributions.

Closing this loophole is a welcome step that shows progress is being made to tackle widespread Super Guarantee non-compliance, but a more comprehensive approach is necessary given the salary sacrifice changes will only help one in ten of those affected by unpaid superannuation.

Allowing older Australians to contribute downsizing proceeds into superannuation

From 1 July 2018, individuals aged 65 and over will be able to make a non-concessional contribution of up to $300,000 in proceeds from the sale of a principal residence, held for at least 10 years, into their superannuation. These new contributions will be in addition to any other voluntary contributions that people are able to make under the existing contribution rules and concessional and non-concessional caps.

Choice of fund

On September 14th 2017 the Federal Government introduced a bill that would extend choice of fund arrangements to those who currently choose their superfund through collective bargaining in EBAs.

Lastly, but most importantly, please speak to Vick Fak of this office **before** you take any action on the above reforms or acting on any of the recommendations as the ramifications can be substantial if you get it wrong.