Government delivers significant changes to superannuation in its 2016-17 Federal Budget

A reduction in concessional contribution caps, the lowering of the Division 293 tax threshold, capping tax-free assets in retirement and a lifetime limit for non-concessional contributions are just some of the changes that were in the Budget announcements this year to impact superannuation. These changes may impact your SMSF and retirement planning and require you to reassess your existing strategies or contemplate new ones.

The key changes proposed for superannuation:

1. Introducing a lifetime cap for non-concessional contributions

The Government is proposing to introduce a $500,000 lifetime cap on non-concessional contributions (NCC) (post-tax contributions) that will include all NCCs made since 1 July 2007. This measure takes effect from 7:30pm (AEST) 3 May 2016.

You will need to determine if your NCCs made since 1 July 2007 equal or exceed $500,000. If they do then you cannot contribute further NCCs to your fund and if you have exceeded the cap you do not need to withdraw the excess NCCs. If you haven't reached the cap of $500,000 as at 3 May 2016, then you can continue to make NCCs up to the cap. If you then exceed the cap, you will need to withdraw the excess NCCs or face a penalty tax. If you do not have this information, these records may be able to be obtained from the ATO. The lifetime cap limit removes the current $180,000 annual cap and the bring forward rule. The cap will be indexed in $50,000 amounts in line with wages.

2. Lowering the concessional contribution cap to $25,000 for all individuals

The Government proposes to lower the concessional contribution cap to $25,000 for all taxpayers from 1 July 2017. You can continue contributing up to the current concessional contribution caps of $30,000 for people aged under 50 and $35,000 for those aged above 50 for the 2015-16 and the 2016-17 financial years.

3. Lowering the threshold of Division 293 tax

From 1 July 2017 the Government is proposing to lower the Division 293 tax threshold from $300,000 to $250,000. This means that if you have an adjusted taxable income of $250,000 or above, Division 293 tax will be charged at 15% on your concessional contributions above the $250,000 threshold from the 2017-18 financial year onwards.

4. Introducing a $1.6 million superannuation transfer balance cap

From 1 July 2017, the Government is proposing to limit the amount an individual can transfer from accumulation phase to retirement phase to $1.6 million. Individuals that have in excess of $1.6 million will be able to maintain those amounts in accumulation phase where the earnings will be taxed at the current rate of 15%. If you are already in retirement phase and your balance is in excess of $1.6 million you will be required to reduce your balance to $1.6 million by 1 July 2017 by either retaining the excess amounts in accumulation phase or withdrawing it from the super fund. Any amounts over $1.6 million in retirement phase after 1 July 2017 will be taxed on both the amount over $1.6 million and any earnings on the excess amount.

5. Removing the tax-free treatment of assets supporting transition to retirement income streams

The Government proposes removing the tax-exempt status of assets supporting a transition to retirement income stream (TRIS) from 1 July 2017. The new tax treatment will apply to all TRIS irrespective of when they commenced. You will also not be able to elect to treat TRIS payments as lump sums for tax purposes.

There are a number of other proposed superannuation changes that may affect you from 1 July 2017. These changes are:

- *Allowing catch-up concessional contributions* — people who have balances under $500,000 will be able to carry forward any unused concessional contributions caps on a rolling 5 year basis.
- *Tax deductions for personal superannuation contributions* — all Australians under the age of 75 will be able to claim an income tax deduction for personal contributions made to their superannuation funds. Currently, this type of deductible contribution is generally available only to self-employed people.
- *Harmonising contribution rules for those aged 65 to 74* — people will no longer have to meet the work test before making concessional and non-concessional contributions to their super fund if they are aged from 65 to 74 (including making contributions for a spouse aged under 75).
- *Improving superannuation balances of low income spouses* — the eligibility rules for low income spouse superannuation tax offset will be extended by raising the threshold from $10,800 to $37,000.
- *Introducing a Low Income Superannuation Tax offset (LISTO)* — the LISTO will replace the current Low Income Superannuation contribution (LISC) to ensure that people with adjusted taxable income up to $37,000 do not pay higher tax on their super contributions than their take-home pay.
- *Removing the anti-detriment provision* — super funds will no longer be able to use these provisions to increase a death benefit paid to certain death benefit beneficiaries on the basis of refunding contributions tax paid by the deceased fund member throughout their life.

How can we help?

If you would like some assistance with identifying how these recent changes are likely to affect your own retirement income planning, please feel free to give me a call to arrange a time to meet so that we can discuss their impact on your particular circumstances. We can then determine whether you need to make any changes to your existing arrangements.