The New Superannuation Rules Are Complex And Their Effects Should Not Be Underestimated.

On 23 November 2016, the Australian Parliament passed the superannuation measures announced in the 2016 Federal Budget. As some of these changes are very significant, it is extremely important that you discuss your particular situation with your financial adviser and determine how these changes may affect you.

Some of the key superannuation changes are as follows:

- $1.6 Million Transfer Balance Cap
- Taxation Imposed Where Transfer Balance Cap Is Exceeded
- Concessional Contribution Cap
- Division 293 Tax
- Carry Forward Concessional Cap
- Deducting Personal Contributions
- Non Concessional Contribution Cap
- Low Income Tax Offset
- Tax Offset For Spouse Contributions
- Innovative Income Streams And Integrity
- Anti-Detriment Provisions
- Administrative Streamlining

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$1.6 Million Transfer Balance Cap

From 1 July 2017 a $1.6 million transfer balance cap will be imposed on the amount that can be transferred to the pension phase.

Defined benefit accounts that have no account balance will have additional tax applied on defined benefit pension payments in excess of $100,000 p.a..

Defined benefit pensions will be valued and form part of the $1.6 million transfer cap balance when other pension income streams have been or are commenced.

Taxation imposed Where Transfer Balance Cap Is Exceeded

Where the transfer balance cap is exceeded the client's fund will be instructed to commute the excess to an accumulation account for the individual or to the individual as a lump sum benefit payment.

The excess will include a notional earnings on the excess and the individual will be liable for tax on this.

The excess transfer balance tax is set as follows:

- 2017/18 – 15%
- 2018/19 onwards – 15% for first breach & 30% for all subsequent breaches.

Concessional Contribution Cap

From 1 July 2017 the concessional contribution cap will be reduced for everyone to $25,000, subject to contribution eligibility requirements.

Division 293 Tax

From 1 July 2017, the Division 293 tax threshold will reduce from $300,000 to $250,000.

Carry Forward Concessional Cap

From 1 July 2018, unused amounts of a person's concessional contribution cap can be carried forward and used in any of the following 5 years, provided the person had a super balance of less than $500,000 on 30 June of the financial year immediately preceding the year they wish to use the carry forward amount.

Deducting Personal Contributions

From 1 July 2017 the 10% test will be removed when determining who can make a personal deductible contribution. The measure will not apply to members of untaxed superannuation funds nor to defined benefit schemes that elect not to be subject to the measure.

Non Concessional Contribution Cap

From 1 July 2017 the non concessional contribution cap will be reduced to $100,000 p.a.. The ability to make a non concessional contribution will only be available to those who have a super balance below $1.6 million at the prior 30 June and are eligible to contribute to superannuation.

Where the bring forward is triggered from 1 July 2017, the amount of the bring forward (the bring forward cap) and the bring forward period will depend on the difference between the general transfer balance cap (i.e. $1.6 million as at 1 July 2017) and the members total superannuation balance at that time (first year cap space). Special transitional arrangements apply to individuals who trigger the bring forward provisions prior to 1 July 2017.

Low Income Tax Offset

From 1 July 2017, clients with an adjusted taxable income of less than $37,000 will effectively receive a refund into their super of up to $500 of the tax paid on their concessional contributions.

Tax Offset For Spouse Contributions

From 1 July 2017 the total spouse income threshold will be increased from $13,800 to $40,000. The maximum offset will remain at $540 and be payable where a spouse's income is no more than $37,000. No offset will be allowable where the receiving spouse's income exceeds $40,000, or where their non-concessional cap for the relevant year has been exceeded. Also, no offset will be allowable if the receiving spouse's total superannuation balance equals or exceeds the general transfer balance cap immediately before the start of the financial year.

Innovative Income Streams And Integrity

The tax exempt status will be extended to new lifetime products such as deferred products and group self-annuities. This measure seeks to address longevity risk worn by retirees.

The tax exemption on the earnings of transition to retirement income streams will be removed from 1 July 2017. SMSFs and small APRA regulated funds will be prevented from using the segregated methods to calculate earnings tax exemptions where their total super balance exceeds the $1.6 million transfer balance cap.

Anti-Detriment Provisions

From 1 July 2017, superannuation funds will no longer be able to claim a tax deduction for a portion of the death benefit paid to eligible dependants.

Administrative Streamlining

Amendments will be made simplify and consolidate the release authority process where excess contributions (either concessional or non-concessional) are withdrawn from superannuation.