CAPRICORN INVESTMENT PARTNERS

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2016/17 Proposed Federal Budget Key Changes Explained

These are 8 significant changes to the superannuation legislation and how they could impact on your financial situation.

1. Changes to concessional contributions

Concessional contributions are contributions made into superannuation for which a tax deduction is claimed; such as superannuation guarantee contributions (SGC) or salary sacrifice contributions.

From 1 July 2017, the concessional contributions cap will be reduced to $25,000 pa (indexed) for everyone, regardless of age.

On the positive side, individuals who have total superannuation savings of less than $500,000 who do not fully utilise the cap each year can carry forward the unused cap on a rolling five-year basis starting from 1 July 2017.

The cap is currently $30,000 per annum under age 50 and $35,000 for 50 and over.

2. Introduction of a lifetime non-concessional contributions (NCC) cap

Non-concessional contributions are made from after tax money, and are contributions for which no tax deduction has been claimed.

A retrospective lifetime cap of $500,000 (indexed) will apply to non-concessional contributions. The lifetime cap will apply to all NCCs made on or after 1 July 2007 with immediate effect from 3 May 2016.

If contributions made before budget night (7.30pm on 3 May 2016) exceed this cap, excess tax will not apply. However, excess contributions made after budget night, (and associated earnings), will incur excess contributions tax if not withdrawn. Previously individuals could make non concessional contributions of up to $180,000pa into their superannuation, with the ability of bringing forward two years 'allowances (i.e. $540,000 worth of contributions in total) if the individual is under age 65.

3. Introduction of a pension transfer cap of $1.6 million

From 1 July 2017, the maximum amount of superannuation that a person can transfer into pension phase is limited to $1.6 million. Individuals who are already in pension phase before 1 July 2017 will be required to transfer any balance above $1.6 million back into accumulation phase (the balance above $1.6 million does not have to be withdrawn from superannuation entirely, it merely needs to be transferred to accumulation phase).

Individuals who are starting pensions from 1 July 2017 cannot roll more than $1.6 million into the pension phase (in total), but the balance rolled over can grow over $1.6 million due to earnings without penalty.

There was previously no limit on the amount individuals could accumulate in pension phase.

The proposed changes are just some of the changes in the 2016/2017 Federal Budget. Other changes include changing the low income spouse tax offset, low income Superannuation Tax Offset and changes to personal and company tax rates. Please feel free to contact us to discuss any of the changes that you believe may impact you.

4. Increase in the tax rate for Transition to Retirement Income Streams (TTR)

Individuals who have reached their preservation are able to convert their superannuation capital into an account based pension even if they are working. This arrangement is known as a transition to retirement income stream.

From 1 July 2017 a 15% tax rate will be applied to the earnings on capital within a TTR pension.

Currently, earnings on the capital within a TTR pension are tax free.

5. Contributions work test abolished

The contribution work test Will be abolished from 1 July 2017 allowing everyone under age 75 to make personal contributions to super or have a spouse contribute on their behalf.

Under current rules, an individual age 65 to 75 needs to meet the work test before making a personal contribution. This requires gainful employment for at least 40 hours within 30 consecutive days in the financial year before making the contribution.

6. Anti-detriment abolished

Anti-detriment payments will cease to be paid from 1 July 2017.

Upon the death of a member, some superannuation funds were able to pay an extra anti-detriment amount to eligible beneficiaries on top of the deceased member's account balance. It is essentially a refund of contributions tax that has been paid by the deceased member.

Most Self-Managed Superannuation Funds (SMSF's) do not have the have the capacity to make anti-detriment payments. This was a disincentive to investing in SMSF's that will be removed.

7. Tax deductions for personal lump sum contributions made available to more individuals

Everyone under the age of 75 will be able to choose to claim a tax deduction for personal superannuation contributions made from 1 July 2017 regardless of employment status.

Currently, a deduction can only be claimed by individuals who are self-employed or substantially self-employed (i.e. less than 10% of their income is attributable to employment-related activities).

8. Threshold reduced for Division 293 Tax

High-income earners currently pay an additional 15% tax on concessional contributions where their total income is over the $300,000 threshold. This is called 'Division 293 tax' based on the legislative provision that outlines the extra tax.

The income threshold is proposed to be cut from $300,000 to $250,000 per annum from 1 July 2017 to limit the concessions available to higher income earners.

This will increase the number of people liable for the additional tax.

***Please note**: The above measures in relation to superannuation are government proposals only at this stage, and not yet law.*

The information provided in this article is general advice only. It has been prepared without taking into account any person's individual objectives, financial situation or needs.

Before acting on anything in this article you should consider its appropriateness to you, having regard to your objectives, financial situation and needs.