HOW CHANGES TO SUPER COULD AFFECT YOUR FUND... AND ITS MEMBERS

This document provides a summary of the key changes to superannuation, when they commence and how they could affect your Small APRA Fund (SAF) and its members.

NON-CONCESSIONAL CONTRIBUTIONS CAP REDUCED

TAKES EFFECT: 1 JULY 2017

The annual non-concessional contributions (after tax) cap is being reduced from $180,000 to $100,000. The bring forward cap, which allows you to contribute the amount of three years of the annual cap in one year, is reduced from $540,000 to $300,000 for those under 65.

Where the bring forward cap has been triggered in previous years but hasn't been fully utilised by 30 June 2017, an amount less than $540,000 will apply.

The Total Superannuation Balance (see page 2) may limit the amount of future non-concessional contributions you can make.

CHANGES TO CONCESSIONAL CONTRIBUTIONS

TAKES EFFECT: 1 JULY 2017 AND 1 JULY 2018

There are three changes applying to concessional contributions:

1. The annual concessional contributions cap (before tax) will be reduced from $30,000 / $35,000 to $25,000 for all individuals from 1 July 2017.
2. Removal of the 10% income test will allow a greater number of people to claim a personal tax deduction for contributions made up to the concessional contributions cap – net of any amount already claimed by their employer. For those aged between 65 and 74 inclusive, you must have also worked at least 40 hours in a period of no more than 30 consecutive days during the financial year. Those over 75 are not able to make personal contributions. This change applies from 1 July 2017.
3. Catch up contributions will be allowed for those who have not reached their concessional contributions cap in the 2019 tax year onwards. The additional claim can be made in the following years returns, with any unused contributions expiring after five years. To be eligible your Total Superannuation Balance (see page 2) must be less than $500,000.

INTRODUCTION OF THE TRANSFER BALANCE CAP

TAKES EFFECT: 1 JULY 2017

The Transfer Balance Cap (TBC) will limit how much can be held in the retirement phase for both existing and new income streams (pensions) to $1.6 million. This cap applies to the pension balance in your SAF, and includes the balance of any income stream you hold in other funds.

Members with existing income streams with a balance in excess of the TBC must either withdraw the excess from the super system or commute the excess back into the accumulation phase in the fund. Defined benefit income streams with restrictions on withdrawal or commutation have special rules applying.

Any excess retained in an income stream above the TBC will be subject to a penalty tax. The tax is applied on a deemed earnings amount from the excess – which may be higher than the actual earnings – at 15% for the first breach, increasing to 30% for any subsequent breaches.

The deemed earnings will accrue until the excess and the deemed earnings are removed from the income stream via a voluntary commutation or on issue of an enforceable Transfer Balance Determination by the Commissioner of Taxation.

Perpetual

For any excess occurring in the first year the cap takes effect, there will be some leniency by the Commissioner in allowing fund trustees and members to rectify their situation.

Future changes in the value of the income stream from the movement of the fund investments will not result in a breach of the TBC and ongoing pension payments made against the income stream do not count as a cap reduction.

However, a commutation of an income stream will reduce the balance counted against the cap for the value commuted.

While the initial cap of $1.6 million will be subject to future indexation with CPI in $100,000 increments, once a member has fully used their TBC no further increments are available.

Where the cap has been partly used, the individual is eligible for only a partial amount of any future increment, in proportion to the TBC used. For example, a member who has used $800,000 of the $1.6 million cap will be eligible to use 50% of a future $100,000 increment, being $50,000.

As the TBC limits the amount that can be held in retirement phase, it will also reduce the amount of Exempt Current Pension Income (ECPI) a fund will have in determining its tax position. This means fund earnings and capital gains that are currently tax exempt in the fund may be subject to income tax from 1 July 2017.

TOTAL SUPERANNUATION BALANCE

TAKES EFFECT: 1 JULY 2017

A new measure is the concept of a Total Superannuation Balance (TSB), which is the sum of an individual's balances in both accumulation and pension. Like the TBC this includes any balances held in other funds.

Members with a TSB of $1.6 million (or the Transfer Balance Cap applicable at the time) or more at the start of the financial year can no longer make additional non-concessional contributions. Similar restrictions apply to government co-contributions or spouse contributions.

From 1 July 2017, members under 65 may be able to use a partial amount of the Bring forward cap for non-concessional contributions as follows:

- TSB before 1 July 2017 of less than $1.4 million can contribute $300,000
- TSB between $1.4 million and $1.5 million can contribute $200,000
- TSB greater than $1.5 million and less than $1.6 million can contribute up to the $100,000 annual non-concessional cap.

LOSS OF TAX EXEMPTION ON EARNINGS FROM TRANSITION TO RETIREMENT INCOME STREAMS

TAKES EFFECT: 1 JULY 2017

The earnings and capital gains associated with assets supporting a Transition to Retirement(TTR) will no longer be tax exempt. This means from 1 July 2017, a fund which has previously been able to treat these amounts as ECPI, will be subject to the complying fund tax rate of 15%.

As a balance held in a TTR will not be considered to be in retirement phase, the balance does not count towards the member's TBC. It does count towards their TSB, however. If converted to a standard Account Based Pension (ABP) on meeting a condition of release, the balance used to commence the ABP must be below the TBC.

Where the member receiving the pension is 60 or over, the actual pension payments are still tax free in their hands.

REMOVAL OF SEGREGATED METHOD FOR DETERMINING EXEMPT PENSION INCOME FOR SMALL FUNDS

TAKES EFFECT: 1 JULY 2017

There are two methods for determining a fund's amount of ECPI for tax:

1. **Segregated method:** assets supporting pension member balances are segregated from those relating to accumulation members. The earnings and capital gains on the segregated pension assets are exempt for tax purposes.
2. **Proportionate method:** an actuary is engaged to determine the balance of the fund in pension phase. This proportion of earnings and capital gains is exempt for tax purposes.

Small APRA Funds and SMSFs will no longer be able to use the segregated method from 1 July 2017 if they have a member with a TSB greater than $1.6 million and that member is in receipt of a pension from any fund.

While funds can still segregate investments to support members with different investment strategies, for tax purposes, an actuary will be required to determine the amount of exempt current pension income.

CAPITAL GAINS TAX RELIEF

APPLIES UP TO: 30 JUNE 2017

Because the changes force people with pension balances greater than the $1.6m TBC to withdraw the excess or commute it back into accumulation phase, the

Government has introduced a Capital Gains Tax (CGT) relief measure.

The relief allows the CGT cost bases of investments to be reset to their market value. This occurs via a notional sale of the investment with a repurchase the following day, with the amount of the transaction being the market value. As this is a notional sale, not a physical sale on market, no transaction costs are incurred.

The relief is available for those funds where investments have been transferred from pension phase back into accumulation phase due to the introduction of the TBC, or as result of the changes to TRIS.

To be eligible for the reset, investments must have been in the fund on 9 November 2016 (when the legislation entered Parliament) and held through to 30 June 2017.

The notional sale does create a capital gain in the fund, with a different treatment applying depending on which method the fund currently uses in determining its ECPI.

SEGREGATED METHOD

- An investment or group of investments is transferred from the pool of assets supporting the pension, to an accumulation pool
- Alternatively the fund elects to commence using the proportionate method discussed below
- This can occur at any point from 9 November 2016 to 30 June 2017
- The capital gain arising relates to the exempt pension assets and is ignored for tax purposes
- Income and capital gains arising from those investments after the move into the accumulation pool are subject to tax.

PROPORTIONATE METHOD

- This occurs on 30 June 2017
- Applies to selected or all investments
- The capital gain, may be included as part of the 30 June 2017 assessable income of the fund
- Alternatively, the fund can defer the capital gain until the asset is actually realised for CGT. The actual capital gain arising on the real disposal, using the refreshed cost base, will be included in that year, together with the amount of the deferred gain.

Under both methods the 12 month holding period restarts in applying the one-third CGT discount. It is important that care is taken when an eligible asset is planned to be sold within 12 months of resetting the cost base.

The choice made needs to be documented in the approved form before lodgement of the fund's 2016-17 tax returns, and once made the election is irrevocable.

DIVISION 293 TAX THRESHOLD LOWERED FOR HIGH INCOME EARNERS

TAKES EFFECT: 1 JULY 2017

If your income is $250,000 and over, the tax paid on your concessional contributions will double from 1 July 2017. You will have to pay an additional 15% contributions tax on top of the 15% tax your super fund already pays.

ESTATE PLANNING CONSIDERATIONS AND ANTI-DETRIMENT PAYMENTS

TAKES EFFECT: 1 JULY 2017

The introduction of a TBC means member's estate plans; death benefit nominations and the use of reversionary pensions need to be reviewed.

In particular, where a recipient of a deceased member's balance has met their TBC, the amount they receive and the method they receive it may be restricted.

Another consequence arising from the TBC is the impact to tax free and taxable components.

Previously, when a member's balance was in pension phase the tax free and taxable components moved proportionally with the change in the member's balance. When the rules change, the growth of balances commuted back to accumulation phase will go towards the taxable component, not the tax free amount.

As a consequence, any death benefit paid to a non-tax dependant may result in a higher tax amount. It may be appropriate for the member to consider their will and broader estate plan in light of these changes, including their assets held outside of superannuation.

The ability for super funds to pay additional death benefits resulting from anti-detriment claims has been abolished. Specifically, where the member dies after 30 June 2017 or dies prior to this date and the payment has not been made by 1 July 2019, an anti-detriment claim cannot be made.

WE'RE HERE TO HELP

If you have any questions about the upcoming changes we recommend you speak to your financial adviser or accountant to determine how these changes may affect you.

Here are some key things you should consider and discuss with your adviser/accountant.

- Check how much super you have in all of your accounts (including if you have some form of income stream) - do the new rules and limits apply to you? Do you need to act before 30/06/17?
- Will you need to commute funds? Do you want to apply for CGT relief?
- Check your contributions both now and for next year.
- Do you have a TTR?
- Consider the impact on your estate plan.

This flyer is only a summary of key changes. The changes to the Superannuation are significant and we recommend that you seek professional advice.

MORE INFORMATION

Perpetual 1800 631 381
Email perpetualprivate@perpetual.com.au
www.perpetual.com.au/advice

Perpetual