As part of the 2016 federal budget, the Government announced significant changes to the superannuation system to better align the tax concessions given to superannuation with the purpose of those tax concessions (which is to help people avoid requiring Government assistance in retirement).

Following the 2016 federal election, those policies were altered from what was initially announced to allow safe passage through Parliament.

With the reduction or removal of generous tax concessions, the changes have the capacity to greatly effect the planning of many people, in particular those:

- Currently with more than $1.6mil in superannuation;
- Hoping or expecting to have more than $1.6mil in superannuation by the time they retire;
- Looking to use a transition to retirement pension to lower tax; or
- Hoping or expecting to contribute lump-sums into superannuation.

It is therefore crucial that you plan in advance to take advantage of the current concessions before the new rules come into effect (mostly on 1 July 2017).

Overview of the Changes

A short overview of the changes are:

- A $1.6mil cap on superannuation monies that can be allocated to a pension account (and therefore eligible to have earnings taxed at 0%);
- Removal of transition to retirement pensions from being eligible for the 0% tax rate on earnings;
- Removal of the ability to segregate assets to supporting pensions if your superannuation balance is over $1.6mil;
- Reduction of the concessional (tax deductible) contributions cap to $25,000 per annum (down from $35,000 for people over 49);
- Reduction of the non-concessional (non-tax deductible) contributions cap to $100,000 per annum (down from $180,000);
- Reduction of the cap applicable to the “3 year bring forward rule” which allows a person to contribute 3 years worth of non-concessional contributions in 1 year (reduced to $300,000 from $540,000);
- Removing the ability of individuals with $1.6mil in superannuation to make any non-concessional contributions;
- Partial commutations of pensions will cease to count towards the minimum withdrawal requirements;
- Allowing all individuals to make concessional contributions (previously you needed to basically not be employed); and
- Allowing individuals with superannuation balance under $500k to roll-over any unused concessional contributions cap for a maximum of 5 years.

If you have any questions, you can contact M.C.A. Accountants Pty. Ltd. by phone on 03 8689 9770, by email at admin@mcaaccountants.com.au, or by post at PO Box 8095, Carrum Downs, VIC, 3201.

Basic Planning Opportunities – Balances Over $1.6mil

If you're lucky enough to have over $1.6mil in superannuation, a short summary of your options are:

- If your spouse has less than $1.6mil in superannuation, consider making an election each year to split (move) your superannuation contributions to your spouse;
- If you are over 59 and retired you may be able to withdraw part of your balance, gift it to your spouse, and have your spouse contribute it into their superfund – effectively moving part of your balance that is over $1.6mil into your spouse;
- Make use of the ability to make non-concessional contributions before 30 June (as you can't after 30 June);
- If you are over 59 and retired, consider a "re-contribution" strategy to move some of your balance from taxable to tax-free (helpful should any of your superannuation ultimately pass to adult beneficiaries under your will).

There are also more advanced planning options available, but due to complexities they are best discussed in person. One recent example that we've implemented will save our client over $100,000 in tax compared to if we sat back and did nothing.

Basic Planning Opportunities – Balances Nearing $1.6mil

If your balance is nearing the $1.6mil threshold, your main planning is around working out when you expect to reach that threshold and work out whether you should aim to delay that, or get there quicker.

Why would you want to get there quicker? To take advantage of the current non-concessional contribution caps. As they are reducing soon (and cut out once your balance reaches $1.6mil), you may have a once only opportunity to get extra money into superannuation. If you are going to reach that cap "naturally" in the near future, then you might be best off making non-concessional contributions now.

Why would you want to delay? Because tax concessions are different at this threshold and if it's doubtful that you get there at all, then it may be beneficial to try are keep all of your superannuation in the best tax-effective environment.

This type of planning typically throws up many different options and is best gone through with a professional who can give you best-case and worst-case scenarios, plus some options that you may not have even considered.

Basic Planning Opportunities – Balances Well Short of $1.6mil

The rules don't change a huge amount for you other than you are further limited in getting non-concessional contributions into superannuation.

If your balance is less than $500k there is a new roll-over of the unused portion of your concessional contributions cap (think of unused data on a phone plan that rolls over and adds to the next month). There is an opportunity to time a larger contribution into superannuation with a year of high income and receive larger tax benefits.

While tax benefits from planning look like being minimal, there are still many benefits to getting a plan in place. Little things like optimising the timing of contributions can save thousands and thousands in tax. The long term benefits of planning are proven, and while you may not be affected by the changes today, you may tomorrow.

Common Scenario – Under 60 Receiving a Transition to Retirement Pension

Salary sacrifice & pension withdrawal strategy

If you're under 60 and receiving a TRP the reforms only provide you with disadvantages. At the moment (2017 year and previous) some or all of your SMSF is in "tax-free" mode. This means that your SMSF is not paying tax on some or all of its income.

For instance, if you have a $500,000 TRP that earns a 5% return, that $25,000 of income is currently tax free to your SMSF. From 1 July 2017 it will revert back to the normal 15% rate.

If you were undertaking a strategy of salary sacrificing to super (say) $20,000 per year and drawing that same $20,000 out of your SMSF in order to take advantage of the tax-free mode it puts your SMSF into while not being personally out of pocket (salary sacrifice of $20k is offset by your pension payment of $20k), this strategy no longer carries the same tax benefits.

Income supplementation strategy

If you are receiving a TRP in order to supplement your income (i.e. drawing more out of super than you are putting in because that suits your lifestyle), then that strategy is still worthwhile – just keep in mind your SMSF will pay tax at normal rates in the future and it's now a tax-neutral strategy (i.e. no better or worse from a tax point of view).

Common Scenario – 60 or Over Receiving a Transition to Retirement Pension

Salary sacrifice & Pension withdrawal strategy

If you're over 60 and receiving a TRP you are worse off under the reforms, but this strategy may still be beneficial for you because your pension payments are tax-free to you.

If you salary sacrifice $20,000 to super, your super fund will pay $3,000 in tax. You can then draw from super the remaining $17,000 and pay no extra tax – the effective tax rate on that $20,000 is 15%.

If you instead didn't salary sacrifice, you pay personal tax on that $20,000. If your income is more than around $20,500 you are paying personal tax at a greater rate (19% between $20,500 and $37,000, 32.5% until $87,000, and more and more above that) and it is therefore effective to keep your strategy going.

Income supplementation strategy

If you are receiving a TRP in order to supplement your income (i.e. drawing more out of super than you are putting in), then that strategy is still worthwhile, but keep in mind your SMSF will pay tax at normal rates in the future.

Common Scenario – One Spouse With Large Balance (>$1.6mil balance)

There are a multitude of options available depending on ages, your spouses balance, cash requirements, whether there are any current pensions or not, and the list goes on – however the most common strategy will be to draw out a large amount of superannuation from the spouse with the large balance and gift this to your spouse who makes a non-concessional contribution into his/her superannuation balance. The aim here is to get your spouse as close to $1.6mil as possible to maximize how much of your combined $1.6mil caps that get used.

Activating this prior to 1 July 2017 is ideal because of the larger non-concessional contribution caps, but not essential (if for instance you are not currently able to draw from superannuation).

Common Scenario – Segregated Pensions

A segregated pension is where you choose which particular assets support your pension (as opposed to it being drawn from the general pool of funds). There are tax benefits associated with this where the chosen assets are high growth or high income producing because these are 100% tax-free (compared to a normal pension where it is a % of all assets).

The ability to segregate will be removed for those with balances over $1.6mil, so planning needs to be done to try and get under that threshold if possible to continue maximising the tax savings associated with segregated pensions.

In addition, currently segregated assets may have their cost base reset for tax purposes in some circumstances, so for those with balances over $1.6mil there may be the ability to remove large capital gains if there are one or more assets performing much better than the rest of them.