POINT
SUPER

CLIENT ALERT

SUPER NEWS | VIEWS | CLUES

AUGUST 2017

Welcome to our first "Client Alert" under our newly formed superannuation entity, M Point Superannuation Services Pty Ltd. We hope that you find these monthly summaries informative. As always, if any questions, please don't hesitate to contact our office.

SUPER REFORMS OFF AND RUNNING, BUT MORE HURDLES AHEAD

The most substantial superannuation amendments in a decade are here, with over a dozen separate measures requiring attention for existing super strategies. With the 1 July 2017 start date now behind us, most individuals and self managed superannuation fund (SMSF) trustees will be breathing a sigh of relief, having cleared the initial hurdles that required action by 30 June.

However, the scale of the reforms means that dealing with the changes is not a sprint race or a set-and-forget event. Rather, it requires ongoing and regular attention throughout the normal cycle of the financial year.
Having cleared the first hurdles on 30 June, it is now time to look down the track and start thinking about the next looming obstacles. This article outlines some of the issues that should be front-of-mind during 2017–2018.

P 02 9929 4177 F 02 9929 5479
LEVEL 1, 68 ALFRED STREET
MILSONS POINT, NSW 2061
MPOINT.COM.AU

M POINT SUPERANNUATION SERVICES PTY LTD ABN 47 607 229 069
AUSTRALIAN FINANCIAL SERVICES LICENSE NUMBER 485840

POINT SUPER

Pension transfer balance cap of $1.6 million

One of the biggest changes is the $1.6 million cap on tax-free pension balances. The limit, which will mainly affect wealthy individuals, applies to the total lifetime amount of accumulated superannuation a person can transfer into the tax-free retirement phase. Subsequent earnings on balances in the retirement phase from July 2017 will not be capped.

Individuals with a retirement phase balance that exceeds the $1.6 million limit have to roll back the excess amount to accumulation phase within their super (where it will be subject to the concessional 15% tax rate) or remove the excess amount from the pension system by paying themselves a lump sum (known as "commutation") – or combine these actions – to bring their retirement phase balance to $1.6 million or less. If you have an excess transfer balance in the 2017–2018 year, it will be taxed at 15%. From 1 July 2018, the rate will be 15% for a first-year breach of the cap and 30% for later breaches.

Transitional relief for excess up to $100,000

If the total of your retirement phase income streams at 1 July 2017 was between $1.6 million and $1.7 million (that is, you have an excess transfer balance of up to $100,000), you may be glad to hear there is a six-month transitional period.

You can avoid penalties if you notify the ATO by 31 December 2017 and take action to roll back or commute the excess amount

SMSF borrowings

The ultimate exit plan for existing limited recourse borrowing arrangements (LRBAs) should be reviewed to consider when the borrowing will be repaid and the underlying asset will be transferred from the custody trust to the SMSF. The reduced non-concessional cap of $100,000 (or $300,000 over three years), and the $1.6 million total superannuation balance limit for making contributions (see 'Contribution caps'), could impact on the SMSF's ability to finance the ultimate loan repayment.

A measure has also been recently legislated (with effect from 1 July 2017) that treats certain repayments of LRBAs from an accumulation account as a credit in a member's pension transfer balance account. The government's intention with this measure is to prevent SMSF members from circumventing the $1.6 million transfer balance cap by transferring money from an accumulation fund to

POINT SUPER

If you are concerned about these changes, talk to us about your existing borrowing arrangements.

Pension balance reporting
Trustees of SMSFs are required to lodge an electronic transfer balance account report (TBAR) with the ATO. The ATO needs this data about individuals' existing and newly started superannuation income streams to administer the pension cap regime, so the TBAR requirement is likely to be strictly enforced.

This pension reporting obligation is set to commence from 1 October 2017, but a transitional event-based reporting approach will apply for SMSFs. Reporting will be deferred until 1 July 2018 for SMSF income streams that existed on 30 June 2017, and for newly commenced income streams. However, certain commutations that are rolled over to another fund, or required to correct an excess transfer balance, will need to be reported 10 days after the month in which it occurs.

Contribution caps
The concessional (before-tax) contribution cap has been lowered to $25,000 for the 2017–2018 financial year (down from $35,000 or $30,000, depending on your circumstances). If you have salary sacrifice and/or voluntary pre-tax contribution arrangements in place, it is important to review them and adjust your contribution amounts so you don't inadvertently breach the new, lower limit. Be mindful, too, that your employer's 9.5% Super Guarantee contributions are counted within the concessional cap amount. Before-tax contributions in excess of the $25,000 cap, regardless of whether you make them or your employer does, will be considered part of your assessable income and taxed at the relevant marginal tax rate.

The main shift regarding non-concessional (after-tax) contributions is that individuals with a total super balance above $1.6 million are now prevented from making further non-concessional contributions. Note that although the $1.6 million figure is the same, this is a different cap from the transfer balance cap (which, as already described, applies to super amounts in retirement phase).

your super fund allows it, you may consider splitting your concessional contributions with your spouse.

Finally, individuals with a total superannuation balance of less than $500,000 on 30 June of the previous financial year can make additional catch-up concessional contributions for unused cap amounts from the previous five years, starting from 1 July 2018. This measure may benefit people with interrupted work patterns, who are likely to end up with unused amounts within the concessional cap some years but may have more money available to contribute in others.

The rest of the super reform measures

There are a number of other measures that may require consideration and attention, like the reduction of the threshold for high income earners from $300,000 to $250,000. And other aspects of the super reforms – ranging from the spouse contribution offset to incentives for making deductible personal contributions, thanks to the removal of the 10% test for employment activity earnings – offer opportunities for some people to maximise their contributions.

TIPS FOR BOOSTING YOUR SUPER

According to the latest ASFA Retirement Standard, Australian singles will need $545,000 and couples around $640,000 to retire comfortably. For many people, the gap between what they have now and what they will need to retire can seem insurmountable, especially in the face of stagnant wage growth and ever-increasing house prices. Although it can be tempting to take a wait-and-see approach and delay making any big retirement plans, it's always a good time to review your super strategy. Consider these tips for growing your super balance effectively.

Make voluntary super contributions

If you want a comfortable retirement, your employer's compulsory 9.5% contribution may not be enough to build the nest egg you need. Making extra voluntary contributions is one of the simplest ways to boost the amount of super you'll have available when you can no longer work.

Making voluntary contributions means depositing some of your personal money into your super fund on top of the amount contributed by your employer, after

$51,021 before tax, you are eligible for a government co-contribution of 50 cents for every $1 you pay in voluntary contributions. This co-contribution benefit goes up to a maximum of $500 per year for people who earn under $36,021.

From 1 July 2017, you are only eligible for a co-contribution if your total super balance is less than $1.6 million at the end of the previous year. You also must not have exceeded your voluntary contributions cap.

Salary sacrifice into your super

The other way to increase your super contributions is salary sacrificing. You can ask your employer to sacrifice some of your before-tax salary or wages directly into your super account as an additional super contribution. Unlike voluntary contributions, these payments don't get counted as assessable income for tax purposes, and are therefore not subject to pay as you go (PAYG) withholding tax. Instead, they are taxed at the super tax rate of 15%.

This option is most effective for people who earn more than $37,000, because the marginal tax rate increases to 32.5% or more (that is, 32.5 cents or more for every dollar earned) above this amount.

From 1 July 2017, the concessional 15% tax rate will only apply to the first $25,000 of the pre-tax super contributions you make each financial year, regardless of your age or income.

Taking advantage of tax concessions can make investing with your super more beneficial than other strategies.

Review your existing super funds

People who have worked for multiple employers often end up with their money spread across a range of super funds. Consolidating your super into a single fund can save you significant costs, because it means you only pay one set of fees. You can usually do this by letting your chosen fund and your current employer know about your decision in writing.

When choosing which fund to roll all of your super into, make sure your employer can contribute to the fund, and that it can offer the levels of insurance you need. You should also check and compare:

services that benefit fund members;
- performance – find a fund that has performed well over the last five to seven years, not just a recent high performer; and
- investment options – the fund should offer investment options that suit your needs and comfort with risk.

Information on fees, investment options, benefits and performance should be available in the fund's product disclosure statement (PDS) or by contacting their customer support.

Consolidate your assets and adjust your risk exposure
Once the kids have left home and you're ready to start winding down your career, moving to a smaller property isn't just a lifestyle choice – it can also be an opportunity to shift a big chunk of your wealth into super.

If you choose to transfer money into super as a lump sum, keep in mind that you may be liable for extra tax if you exceed your annual voluntary contribution cap. You also need to factor in additional expenses involved with selling and buying property, such as stamp duty and agent's fees.

If you're looking to increase your super later in your career, you always have the option of shifting to a higher-risk investment portfolio. This can deliver better short-term returns, but it's always a good idea to talk to us about it first – making a bad high-risk investment could cost your nest egg.

WANT TO KNOW MORE? CONTACT US!

These tips can help you achieve peace of mind, knowing there will be more super waiting for you at retirement time. If you're not sure what's right for you, it's always a good idea to seek financial advice. Contact us today to discuss your super and retirement arrangements.

Important: Clients should not act solely on the basis of the material contained in Client Alert. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of

information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.

M Point Superannuation Services Pty Ltd
Location: Level 1, 68 Alfred South St, Milsons Point, NSW 2061
Ph: 02 9929 4177

To unsubscribe, click **here**