Super changes set to come into effect

2017 heralds a time of stability and consolidation for super funds and their members

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2017 will be the start of what is expected to be an extended period of stability and consolidation for super fund members following a year of change in 2016.

On 23 November last year, after months of negotiation and amendment, the federal government finally succeeded in having a raft of significant changes to superannuation passed by parliament.

Federal Treasurer Scott Morrison has said that 96% of individuals with superannuation "will either not be affected by these changes or will be better off."

The majority, but not all, of these changes will come into effect on 1 July this year. This column lists the key changes.

Annual cap on concessional contributions
From 1 July 2017, the annual cap on concessional contributions will be lowered to $25 000 per annum, down from its current rate of $30 000 for those aged less than fifty years and $35 000 for those aged fifty and over.

Catch-up concessional superannuation contributions
From 1 July 2018 (not 2017 as previously indicated by government) those with total superannuation balances of $500 000 or less will be able to make catch-up concessional superannuation contributions, subject to unused concessional contribution caps being carried forward on a rolling basis for up to five years.

For those earning over $250 000
From 1 July 2017, those with more than $250 000 of income and superannuation contributions (adjusted for other benefits) will pay an additional 15% tax on their concessional contributions on those super contributions that exceed the $250 000 threshold.

The proposed new 30% rate of tax continues to be less than the marginal rate of tax if earning greater than $250 000.

Tax deductions for contributions
From 1 July 2017, the government will improve the flexibility of the superannuation system so that more

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Australians can utilise their concessional contributions cap, by allowing people under seventy-five to claim an income tax deduction for personal superannuation contributions to an eligible fund. Personal contributions for which a tax deduction is claimed will count towards the concessional contributions cap.

However, to take advantage of this change, people aged between sixty-five and seventy-four will need to first satisfy a work test. (The work test was originally slated for removal but will now be retained)

$100 000 annual non-concessional contributions cap

From 1 July 2017, the current annual non-concessional contributions cap of $180 000 will be reduced to $100 000 per annum. However, superannuation fund members still have until the end of the current financial year to take advantage of the current $180 000 non-concessional contribution cap. Members under age sixty-five also have until the end of this financial year (i.e. 2016/17) to consider taking advantage of the 'bring-forward rule' which allows up to three years' of non-concessional contributions to be made in the one year. This means that members who are in the position to do so can potentially make up to $540 000 worth of non-concessional contributions (the $540 000 figure being 3 x $180 000) by 30 June 2017.

Transition to retirement (TTR) pensions

Currently, individuals can commence a TTR pension at their preservation age (between fifty-six and sixty-five years of age, depending on their date of birth) even though they have not yet retired. No tax is paid by the super fund on the investment earnings from assets supporting these TTR pensions. Although some income tax may be paid by the individual on receipt of the pension payments up to age sixty, once an individual is aged sixty and over, withdrawals are tax-free.

From 1 July 2017, the government will remove the tax exemption on investment earnings of TTR pensions and they will be taxed at 15% (as is the case for investment earnings on superannuation assets). This change will apply regardless of when the TTR commenced. There are no changes to the tax arrangements for individuals upon receipt of these pension payments.

$1.6m super transfer balance to retirement products cap

From 1 July 2017, the government will introduce a $1.6m cap on the total amount of superannuation an individual can transfer into retirement products, which includes superannuation pensions.

The cap will be applied to current retirees and those who have yet to enter retirement. Current retirees with more than $1.6m in retirement products (including superannuation pensions) have until 1 July 2017 to either remove the excess or return it to an accumulation superannuation account, where 15% earnings tax applies or 10% if capital gains.

Low income super tax offset

From 1 July 2017, the government will introduce the Low Income Superannuation Tax Offset to replace the Low Income Superannuation Contribution when it expires on 30 June 2017.

Individuals with adjusted taxable income of $37 000 or less will receive an effective refund of the 15% contributions tax paid on their concessional contributions, up to a cap of $500.

Super balances of lower income spouses

To help lower income spouses increase the superannuation they accumulate, from 1 July 2017 the income threshold for the receiving spouse (whether married or de-facto) will be increased from $10 800 to $37 000, thereby helping more families to support each other in accumulating superannuation.

A contributing spouse will be eligible for an 18% tax offset worth up to $540 for contributions made to an eligible spouse's superannuation account.

If you would like more information about these changes to superannuation and how they may affect your retirement savings, please contact your super fund.

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