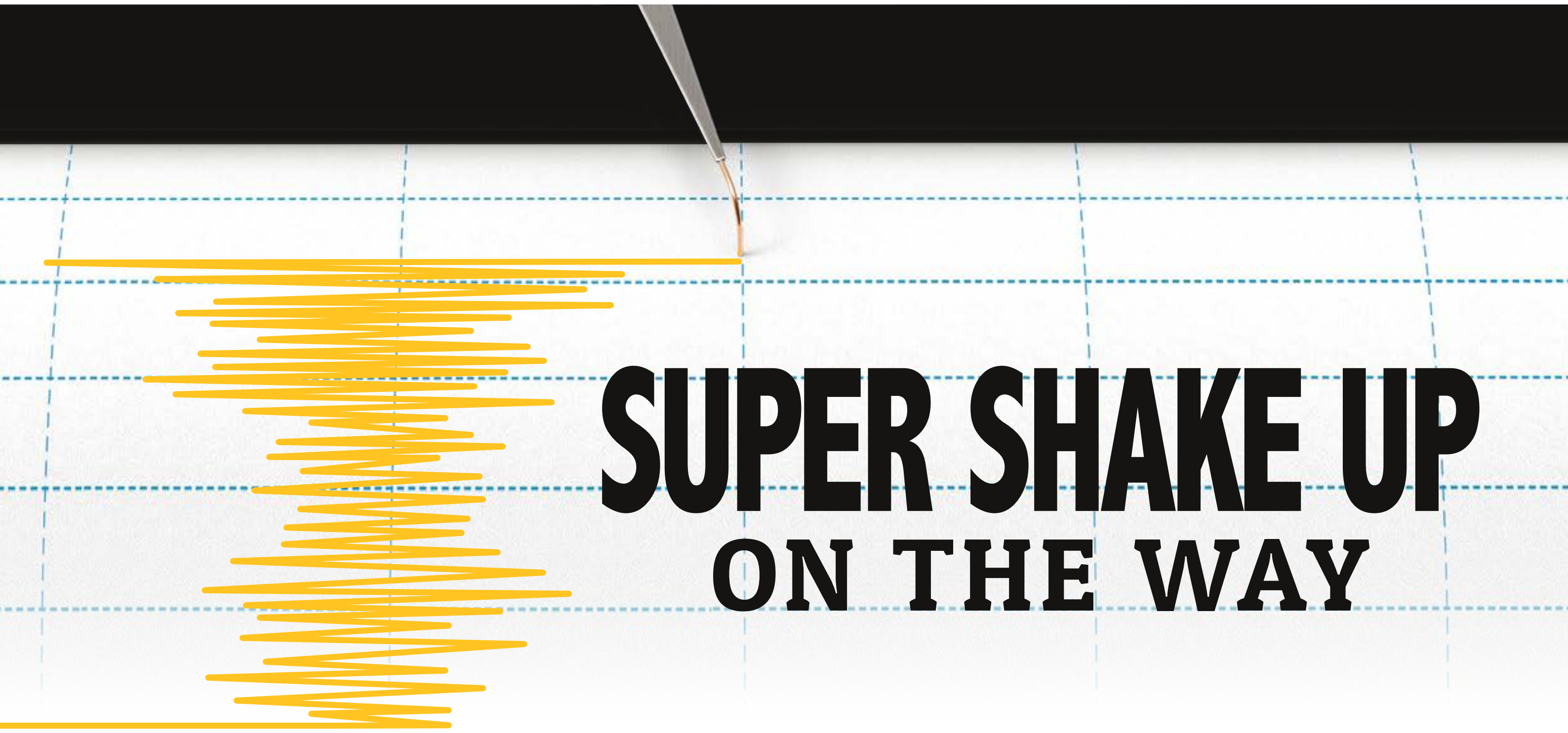
rise financial

Take Control - With Your Independent Financial Adviser



SUPER SHAKE UP ON THE WAY

Retirement planning just became more complex after the government gave superannuation a surprisingly extensive shake-up in the May budget. Some of the proposed changes won't come into force until 2017, but others may require immediate attention.

If you are planning to put after-tax money into super before June 30 you now need to work out whether you will be in breach of the new $500,000 lifetime cap on non-concessional contributions. This cap is calculated from 1 July 2007.

There is no need to worry if you were already over the limit on budget night, but any excess contributions made after that date could attract a tax penalty.[i]

Assuming the budget is passed into law, two further caps will come into force on 1 July 2017 that could force many people to rethink their retirement income strategy. The annual concessional (pre-tax) contributions cap will be reduced to $25,000 for everyone. Currently the cap is $30,000, or $35,000 if you are 49 or older.

Pension clampdown

Then there is a new lifetime pension transfer cap of $1.6 million, restricting the amount that can be transferred from an accumulation account into pension phase where earnings and withdrawals are tax free. Any super savings above $1.6 million will need to be held in an accumulation account where earnings will be taxed at 15 per cent. On the plus side, retirees will not be taxed on withdrawals from an accumulation account and they can pull their money out at any time.

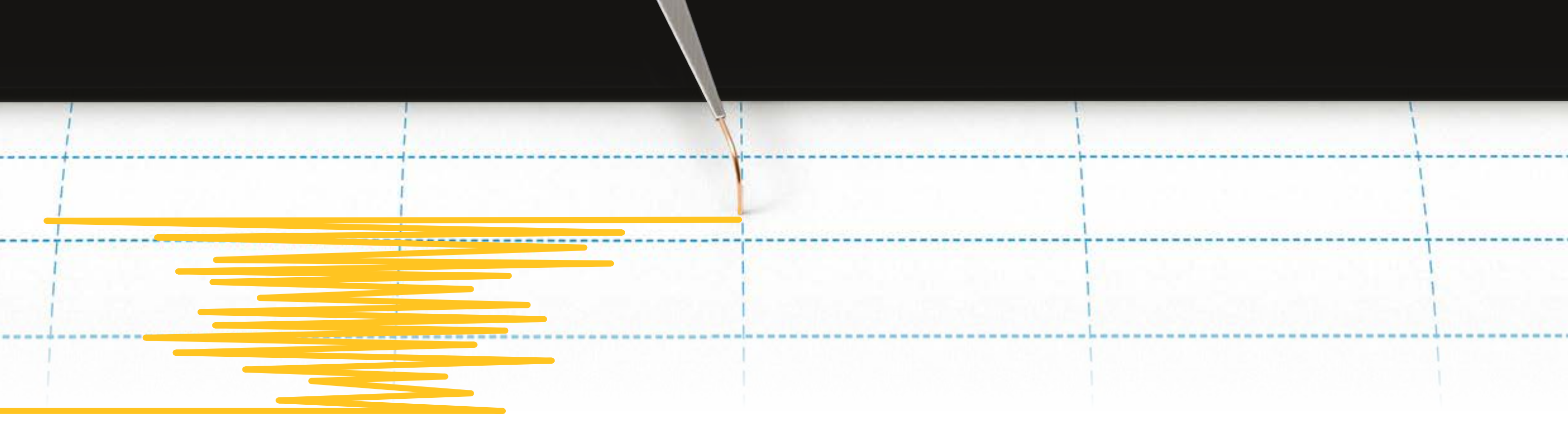
While the majority of Australians currently retire with nowhere near $1.6 million, anyone with assets of more than $1.6 million outside their family home may need to look at alternative investment vehicles.

Transition to retirement

One change that could adversely affect more people than the wealthy fund members targeted by the government is the removal of the earnings tax exemption for transition to retirement (TTR) pensions from 1 July 2017. There is no change to the way pension payments will be taxed; they will remain tax free if paid after age 60 and taxed at 15 per cent if paid before age 60.

When you retire or turn 65, your TTR pension balance will be assessed under the new pension transfer cap of $1.6 million.

Rice Warner says this change may impact the ability of many middle-income earners to catch up on retirement savings in the final years of their working lives. It could also spell the end of the popular re-contribution strategy whereby fund members re-contribute part of their TTR pension back into super as a non-concessional contribution. According to Rice Warner, this has allowed them to boost their



retirement savings and to minimise tax payable on death should the benefit be paid to non-dependent beneficiaries.[ii]

Good news for couples

But that's enough of the bad news. Individuals with the good fortune to be married will have even more reason to be thankful, following changes that promote a combined approach to super.

From 1 July 2017 the income threshold for the low-income Spouse Contribution Tax Offset will increase from the current $10,000 to $37,000. This will give more scope for higher earning spouses, or those who have reached their individual contribution limits, to boost their partner's super balance.

This should take some of the sting out of the new contribution limits and lifetime pension cap. Instead of an individual $1.6 million tax-free pension, couples can shoot for a combined $3.2 million.

…and low income earners

Granted, the Low Income Super Tax Offset (LISTO) is not a new measure, simply a rebranding of the Low Income Super Contribution (LISC) which was scheduled for the scrapheap from 30 June 2017. Even so, it's good news for those earning less than $37,000 who will still be eligible to receive a tax offset of up to $500 on any personal concessional contributions.

Without this top-up, low-income earners would effectively pay tax on their super contributions at a higher rate than they do on their income.

…and older workers

The praise was unanimous for the decision to allow people to add to their super up to age 75. At present people aged 65 to 74 need to satisfy a work test before they can make a contribution.

From 1 July 2017 anyone can continue contributing to their super up until they turn 75, whether or not they are working. This applies to concessional and non-concessional contributions as well as spouse contributions and will give women and others with low super balances extra time to play catch up.

Also good news is the long overdue move to allow all individuals to make personal, concessional contributions to super, up to the new $25,000 annual cap, and claim a tax deduction.

And individuals who have not been able to use their concessional contribution cap will be able to carry forward the unused amount for up to five years.

Seek advice

With such sweeping changes in prospect, many people will need to revisit their retirement income planning. Wealthier Australians may also need to find alternative homes for their retirement savings once they reach their individual caps.

Yet despite the headache the proposed changes will cause, super is still the most tax effective retirement savings vehicle in the land, albeit less generous than it was. We are here to help you minimise any adverse impacts and maximise the opportunities, so give us a call.

i For all the details on the super changes covered in this article go to www.budget.gov.au and search under 'tax and super'

ii Playing with TRIS – the impact on middle Australia, Rice Warner, http://ricewarner.com/playing-with-tris-the-impact-on-middle-australia/

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