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Super gets a *makeover,* again

Just when those saving for retirement thought the rules couldn't get any more complex, the Turnbull Government has revised some of the key elements of the controversial superannuation reforms it announced in the May 2016 Federal Budget.

After some noisy criticism, amendments were announced in mid-September to water down the more contentious elements. Despite this, the reforms still represent significant alterations to the current superannuation system. Assuming the changes are legislated, retirement savers will need to ensure they are swimming between the new flags from 1 July 2017.

New $1.6 million limit on tax-free super

One of the major reforms is the introduction of an indexed $1.6 million limit on the total amount of accumulated super an individual can transfer into the tax-free retirement phase. Earnings on that balance will not be capped, but any savings above $1.6 million must remain in an accumulation account (where earnings are taxed at 15 per cent), or be moved out of the super system to avoid penalty taxes.

Cut to concessional contribution limits

An important change for many people will be the reduced annual caps on the amount of concessional (before-tax) contributions they can make into their super account. From 1 July 2017, the annual cap on concessional contributions will be a flat $25,000 (indexed). This is down from the current limits of $30,000 for those aged under 50 and $35,000 for those aged 50 and over.

High income earners will also need to watch the new lower $250,000 income threshold, as their concessional contributions become taxable at 30 per cent, compared to 15 per cent normally.

Lower annual non-concessional (after-tax) contributions cap

The controversial $500,000 lifetime non-concessional contributions cap has been altered, replaced with an annual cap of $100,000 (down from the current $180,000). Individuals aged under 65 will still be eligible to bring forward three years of non-concessional contributions, while those aged between 65 and 74 can now make non-concessional contributions if they meet a work test.

To help pay for replacing the $500,000 lifetime limit with a lower $100,000 annual cap, individuals with a super balance of over $1.6 million will be ineligible to make non-concessional contributions. Proposals to remove the work test to contribute to superannuation for people aged 65 to 74 will also be scrapped.

Tax deductions for personal contributions

Many super savers will benefit from new rules allowing additional people to claim a tax deduction for their personal contributions into super. From 1 July 2017, individuals aged under 65 and those aged 65 to 74 who meet a work test will be able to claim a tax deduction. This deduction is currently only available to people broadly earning less than 10 per cent of their income from salary or wages, such as the self-employed.

Catch-up contributions delayed

Individuals planning to make 'catch-up' contributions into their super will have to wait a little longer, as the proposed starting date for this reform has been deferred to 1 July 2018 to help pay for scrapping the $500,000 non concessional lifetime limit. Under the new rule, people with account balances below $500,000 will be able to rollover any unused concessional caps for up to five years. This means if you do not make a concessional contribution in a given year, you can use your $25,000 limit in a later year.

New benefit for low income earners

From 1 July 2017, the Low Income Superannuation Contribution (LISC) will be replaced with a new Low Income Superannuation Tax Offset (LISTO). The LISTO will be a refund (up to $500) of the concessional contributions tax paid by individuals with income under $37,000. This will stop low income earners paying more tax on their super contributions than on their take home pay.

Spouse tax offset expanded

More couples will be able to use the $540 tax offset for spouse contributions under the new rules, with the spouse income limit rising to $40,000.

Transition-to-retirement (TTR) pensions wound back

In contrast, TTR arrangements will be less attractive, as the tax-free status of income generated by the assets supporting these pensions is being removed. From 1 July 2017, this income will be taxed at 15 per cent and certain income stream payments will no longer be counted as lump sums for tax purposes.

Axing of anti-detriment payments

Super funds will no longer be able to claim a tax deduction for a portion of the death benefits paid to eligible dependents.

Although the amendments to the reform package have broadly been supported, the delay in permitting catch-up contributions will be disappointing for low income earners and people wanting to boost their super balance in the run up to their retirement.

The rules governing Australia's super system are complex and with the many changes being passed through legislation it's challenging to stay up to date and ensure that your retirement planning takes into account these changes.

If you would like more information or just to chat about how super can be used to build your retirement nest egg, please contact our office today.

Key changes at a glance (changes effective 1 July 2017)

- Introduction of indexed $1.6 million (indexed) super transfer balance cap
- Reduction in annual cap for concessional (before-tax) contributions to $25,000 (indexed)
- Reduction in income threshold before additional tax on superannuation contributions is payable
- Introduction of $100,000 annual non-concessional contributions cap
- Introduction of Low Income Superannuation Tax Offset (LISTO)
- Expansion of tax deductions for personal contributions
- Introduction of catch-up contributions for people with low super balances
- Extension of income threshold for spouse tax offset
- Removal of tax-free status for earnings supporting transition-to-retirement pensions
- Abolition of anti-detriment rule

Source: http://treasury.gov.au/SuperReforms

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