# SUPERMATTERS

SUPERANNUATION STRATEGIES FOR YOU AND YOUR BUSINESS

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## Federal Budget: Super shake-up

This year's Federal Budget saw a raft of changes to superannuation with introduced measures intended to improve the sustainability and integrity of Australia's superannuation system.

The following measures were announced, including:

### Introducing a $1.6m transfer balance cap

There will be a $1.6 million superannuation transfer balance cap on the total amount of super that individuals can transfer into retirement phase accounts. While this limits taxpayer support for tax-free retirement phase accounts, it does not restrict the savings that can accumulate outside of superannuation.

From 1 July 2017, individuals who already have benefits in pension (earnings exempt) phase with a balance exceeding $1.6 million will be required to 'transfer' the excess over $1.6m back into the accumulation phase or pay out the benefits.

### A lifetime non-concessional contributions cap

The introduction of a $500,000 lifetime cap for non-concessional contributions will limit the extent individuals can use superannuation for tax minimisation and estate planning. Less than one per cent of Australian superannuation fund members have made contributions above this cap since 2007.

### Reducing the concessional contributions caps

The superannuation concessional contributions cap will be lowered to $25,000 per annum to provide more flexibility and accommodate modern working arrangements. Reducing the caps will only affect around three per cent of superannuation fund members, who will still be able to make enough contributions during their working life to be self-sufficient in retirement.

Catch-up concessional superannuation contributions will be introduced to allow those with lower contributions and interrupted work patterns to make 'catch-up' payments to boost their nest egg. This will apply to those with account balances of $500,000 or less whereby allowing unused concessional contribution caps to be carried forward on a rolling basis for up to five years.

### Additional tax on concessional contributions

Those with combined incomes and super contributions greater than $250,000 will now be required to pay 30 per cent tax on their concessional superannuation contributions. This extends the current treatment of people with combined incomes and superannuation contributions over $300,000.

### Changes to transition to retirement scheme

Earnings from assets supporting transition to retirement income streams (TRIS) will be taxed at 15 per cent instead of the current tax exempt status. Individuals will no longer be able to treat certain superannuation income stream payments as lump sums for tax minimisation purposes. The changes will apply from 1 July 2017 irrespective of when the TRIS commenced. These changes ensure TRIS are not accessed primarily for their tax advantage.


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# Incentives for greater super flexibility

The Budget has introduced a series of incentives to provide Australians with more choice and access to superannuation to help enjoy retirement.

The Government has recognised the current system offers limited flexibility for modern work patterns such as those who work part-time, take time out of work or have 'lumpy' income in which they make no or limited super contributions. Women, in particular, often experience breaks in work, or work part-time, which often results in lower super account balances than men.

Key measures have been introduced to address these issues and help create a more flexible and equally accessible super system. The following changes are aimed at bolstering the super savings for Australians in the modern economy:

### Low Income Superannuation Tax Offset

The Low Income Superannuation Tax Offset (LISTO) will replace the Low Income Superannuation Contribution when it expires on 30 June 2017 to continue to support the accumulation of superannuation for low-income earners. The LISTO will allow individuals with an adjusted taxable income of $37,000 or less to receive a refund of the tax paid on their concessional contributions, up to a cap of $500.

This offset avoids the situation where low income earners were more highly taxed on their superannuation contributions than if they earnt the same income as wages or salary. The LISTO will, in particular, assist women to build their superannuation savings.

### Contributions for low income spouses

The ability to claim a tax offset of up to $540 per annum for spouse contributions has become more accessible with the income threshold for spouses increased from $10,800 to $37,000. This measure is intended to apply from 1 July 2017.

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

### Age based contribution rules removed

The current restrictions on the minimum work requirements and spouse contributions for Australians aged 65 to 74 will be removed. Individuals aged up to 75 will be able to make voluntary or non-concessional superannuation contributions and receive superannuation contributions from their spouse from 1 July 2017. The incentive is to assist older Australians to make superannuation contributions appropriate to their circumstances.

### Retirement income products

Barriers are being removed to endorse innovation in the creation of retirement income products. These income products can enhance the flexibility and choice for retirees to better manage risk and improve their standard of living in retirement.

From 1 July 2017, the tax exemption on earnings in the retirement phase will be extended to products such as deferred lifetime annuities and group self-annuitisation products.

# Splitting super with your spouse

Since change is an inevitable part of Australia's superannuation system, taxpayers should always be aware of and on the lookout for super strategies that they can take advantage of.

One such strategy, which is not only straightforward but also highly-effective, is splitting superannuation with your spouse.

Splitting super with your spouse involves one partner (usually the older and higher earner) instructing their super fund once a year to transfer 85 per cent of their concessional (before-tax) contributions made that year to their partner's super account. The receiving spouse must be less than the preservation age that applies to them, or aged between their preservation age and 65 years, and not retired. The partner splitting their contributions can be of any age. Non-concessional contributions (after-tax) cannot be transferred.

The spouse-splitting strategy can be extremely useful and can create many advantages. For example, it can enable a couple to maximise the amount that could be withdrawn tax-free if either of them ceased working between their preservation age and 60.

It can also help a couple to withdraw more from their accounts. Individuals aged between 55 and 60 can only withdraw the first $185,000 of the taxable component tax-free, therefore, having two large funds means a couple could withdraw $370,000 tax-free between them.

If a couple found it to be appropriate, the older contributing spouse could also work until they were 75 to continue the spouse-splitting strategy if the younger spouse passed the work test. This would keep the older spouse in a lower marginal tax bracket, who would then be able to fund some household expenses through tax-free withdrawals from the receiving spouse's super.

Another potential benefit in moving one spouse's superannuation to their partner's account is that it provides protection against future changes that may restrict lump sum withdrawals or create a tax on higher balances. Two separate superannuation accounts also offer more flexibility than keeping the majority of superannuation savings in the name of just one partner.

# LRBA deadline extended

The ATO has extended its 30 June 2016 deadline to 31 January 2017 for SMSF trustees to review limited recourse borrowing arrangements (LRBA) for non-arm's length income.

The Tax Office issued the Practical Compliance Guide 2016/5 in April to provide guidance for SMSF trustees to ensure LRBA arrangements are on terms that are consistent with an arm's length dealing. The extension follows several individual requests to the ATO for further time, highlighting the need for additional ATO guidance.

SMSF trustees with a LRBA that is not maintained at arm's length by 31 January 2017 will be subject to the top marginal tax rate as income will be treated as non-arm's length income (NALI). The ATO is set to provide further practical guidance to assist SMSF trustees to make decisions about whether the NALI rules apply to their arrangements.

The ATO will not select an SMSF for an income tax review purely because it has an LRBA for 2014-15 income years and prior, provided that:

- the SMSF trustee ensures that any LRBAs that their fund is on terms consistent with an arm's length dealing, or is alternatively brought to an end by 31 January 2017; and
- payments of principal and interest for the year ended 30 June 2016 must be made under LRBA terms consistent with an arm's length dealing by 31 January 2017.