SUPERMATTERS

SUPERANNUATION STRATEGIES FOR YOU AND YOUR BUSINESS

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End of financial year tips for your SMSF

30 June marks the end of the financial year (EOFY); a hectic time for SMSFs busily getting their finances in order.

Consider the following EOFY tips to grow your nest egg:

Salary sacrifice

Arrange to have your employer sacrifice your pre-tax wages into your superannuation fund.

Members already practising salary sacrificing should consider making higher contributions. Increasing contributions is a step towards an adequate retirement income. There are no limitations to salary sacrificing unless otherwise stated in your employment contract. However, consider whether the additional salary you sacrifice will attract higher tax as a result of exceeding your concessional contributions cap.

For the 2016-17 financial year, the concessional contributions cap is $30,000 and is temporarily increased to $35,000 for those aged 49 or over. From 1 July 2017, the concessional contributions cap will be lowered to $25,000 for all individuals regardless of age.

Claim deductions for contributions

Individuals, particularly the self-employed, can claim a deduction for personal super contributions provided they meet specific conditions. They must earn less than 10 per cent of their total assessable income, reportable fringe benefits and reportable employer super contributions as an employee.

From 1 July 2017, the 10 per cent maximum earnings condition no longer applies, meaning most individuals will be able to claim a tax deduction for personal super contributions.

Spouse tax offset and co-contributions

The spouse contribution tax offset of up to $540 applies to those making super contributions to a complying super fund on behalf of their spouse, provided:

- The sum of spouse's assessable income prior to 2017-18 was less than $13,800.
- You and your spouse are Australian residents and are not living separately on a permanent basis at the time of making the contributions.
- The contribution was not made to your fund first and subsequently split to your spouse.

Additionally, the Government offer a super co-contribution to low or middle-income earners who make contributions to their super fund to help boost their retirement savings. You will be eligible for a co-contribution of up to $500 provided:

- one or more super contributions were made during the financial year
- you pass the income threshold test and the 10 per cent eligible income test
- you are less than 71 years old at the end of the financial year
- you were not holding a temporary visa at any time during the financial year
- the relevant tax return was lodged.

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Marital breakdown under the new transfer balance cap

The introduction of a $1.6 million transfer balance cap on tax-free retirement phase accounts from 1 July 2017 will have implications for individuals receiving or paying a payment split arising from a divorce or relationship breakdown.

Payment splits may affect an individual's super income stream in two ways. A payment split may involve the member spouse:

- converting part of their super income stream into a lump sum ('commuting' it), which is then paid to the non-member spouse, or
- retaining complete ownership of their super interest but having a portion of each payment from their super income stream directed to the non-member spouse.

Where the super income stream is partially commuted and paid to the non-member spouse as a lump sum, the member spouse's transfer balance account will reduce by the amount paid to the non-member spouse.

If the non-member spouse uses the proceeds of the member spouse's super lump sum to start a new super income stream, this will count towards their transfer balance cap.

In instances where the member spouse retains complete ownership of the super interest but a portion of each payment is directed to the non-member spouse; the member spouse's transfer balance account will be reduced by the amount of the super interest that the non-member spouse is entitled to.

The non-member spouse receives a credit in their transfer balance account equal to the full value of member spouse's super interests. They also receive a debit to reflect the member spouse's retained entitlement.

One party must notify the ATO in order for their debits to arise. The transfer balance accounts are debited when the payment split becomes operative under the Family Law Act 1975, or when you start to have a transfer balance account, whichever is the later.

Calculating your 'total super balance'

Following changes to superannuation coming into effect from 1 July 2017, some super members will need to calculate their 'total superannuation balance' to work out their eligibility for a number of contribution measures.

A member's 'total superannuation balance' refers to an individual's total super interests on a given date. The 'total superannuation balance' is relevant when working out eligibility for:

- the unused concessional contributions cap carry-forward
- the non-concessional contributions cap and the two- or three-year bring-forward period
- the government co-contribution
- the tax offset for spouse contributions.

SMSF trustees and trustees of a small APRA fund will need to know their members' total superannuation balances to determine whether they can use the segregated assets method to calculate exempt current pension income (ECPI).

'Total superannuation balance' is generally calculated at the end of 30 June of each financial year. The first date it will be used is 30 June 2017 to determine eligibility for the aforementioned measures.

To calculate your 'total superannuation balance' add together:

- the accumulation phase value of your super interests that are not in the retirement phase
- if you have a super income stream in the retirement phase value - your 'transfer balance' or your 'modified transfer balance' (but not if it's less than nil)
- the amount of any rollover super benefit not already reflected in the accumulation phase value of your super interests or your transfer balance (rollovers in transit between super funds on 30 June).

Once you have added these together, subtract any personal injury or structured settlement contributions that have been paid into your super fund(s).

Transitional provisions for working out your retirement phase value of your 'total superannuation balance' at the end of 30 June 2017 apply as a transfer balance account does not commence until 1 July 2017.

The transitional arrangements apply so that your transfer balance at the end of 30 June 2017 is equal to:

- the sum of your transfer balance credits just after the start of 1 July 2017, less
- any debits in relation to payment splits (if applicable).

This is subject to the transfer balance modifications for account-based income streams.

ATO cracks down on super non-compliance

The Australian Tax Office (ATO) is cracking down on super guarantee (SG) non-compliance, addressing around 21,000 SG non-compliance cases in 2015-16 alone.

Since 2010-11, the ATO has transferred almost $2 billion in SG entitlements to employee's super funds.

The Tax Office receives roughly 20,000 reports each year from people who believe their employer has not paid SG. The ATO have over 150 staff who focus specifically on SG compliance. Staff examine every report, follow-up with the employer and if necessary, undertake audits and apply penalties.

The ATO has an additional 300 staff that review SG compliance in conjunction with Pay As You Go Withholding Tax audits targeted across a range of industries, regional areas and individual circumstances.

Furthermore, the ATO undertakes a range of compliance activities to detect and deal with non-compliance, taking firm action with employers who do not cooperate with requests to ensure employee entitlements are paid on time.