

Why super is still simple

It may be hard to believe, particularly with all the discussions since the 2016 Budget announcements regarding changes to the system, but at its core, super still remains a relatively simple concept.

Superannuation remains a very tax effective investment vehicle, with a maximum tax rate within the fund of 15% when the relevant rules are complied with.

So what's all the noise about the changes then? There are some changes and it is important to be across them, but the above fundamentals still remain. The changes themselves can largely be categorised into two main themes – changes around contributions, and changes in retirement.

Contribution changes

The changes to contributions don't take effect until 1 July 2017. From that time, there will be a reduction in the amount that can be contributed annually, and if you have (or are approaching) a total super balance of \$1.6 million, an additional restriction on your non-concessional (or after tax) contributions apply.

From 1 July 2017, the annual limit for concessional contributions falls to \$25,000. This limit applies for everyone eligible to make or receive these pre-tax contributions, which generally comprise Super Guarantee (SG) amounts from employers, amounts salary sacrificed to super and, if you are eligible, personal deductible contributions. If all you receive is the minimum SG required from your employer, then the reduction in annual limits (from \$30,000 or \$35,000 this year depending on your age) won't have an impact on you. But if you also salary sacrifice, you may need to review your arrangements by 1 July 2017 to ensure you don't inadvertently exceed the cap. Of course, the flip side is that if you aren't maximising these contributions this year whilst the cap is higher, is there more you can do?

For non-concessional, or after tax contributions, from 1 July 2017 the annual cap will be reduced from its current \$180,000 to a lower limit of \$100,000. The three-year bring forward provision still applies, meaning you can do up to three years' worth of contributions in one year (provided you were under 65 at the start of the year).

With that limit reducing from 1 July 2017, the question again arises as to what you can do this year? If you were under 65 on 1 July 2016, and you haven't used the bring forward provision in the last 2 years, you actually have the ability to contribute up to \$540,000 of after tax contributions this financial year and give your super a great kick before the limits reduce. Of course we know not everyone has the ability to contribute this much, but again it's worth thinking about how much you can actually afford to do.

Changes in retirement

Despite all the talk of the changes to super in retirement, there have been no changes to the rules around when you can actually access your super or, if it comes from an accumulation style fund, the way the payments are taxed to you. The existing rules continue to apply.

In essence, only two things have changed. First, if you have commenced drawing on your super through a 'transition to retirement' (TTR) income stream, or look to commence one from 1 July 2017, from that date, earnings on the assets in your super fund that support that TTR will no longer

be tax free. Rather, those earnings in the fund will be taxed at the standard 15% tax rate in super, rather than being tax free in the fund. Remember, there is no change to your personal tax on the amounts you receive from a TTR.

Second, for pension paid in the “retirement phase”, which essentially refers to pensions payable to you after retirement or age 65, there is a limit on how much you can actually start these pensions with. From 1 July 2017, that limit will be \$1.6 million. Amounts above that need to stay in accumulation phase, with the earnings on those accumulation amounts continuing to be taxed within the fund at the rate of 15%.

If you don’t have, and don’t expect to ever be in receipt of superannuation accounts in excess of \$1.6 million, these changes won’t impact you, other than if you run a TTR.

Super is still a super option

One of the major things that these recent super changes have shown is that it’s really important to understand what the changes mean for you. Super, as a concept, remains unchanged. The Government estimates that no more than 4% of the population will be impacted by these changes.

Whether you are in that 4% or not, it’s always worth talking to a financial adviser just to see how you are placed in terms of your current plans, or if they should change.

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