The Muirfield Team

THE SIGN OF GOOD ADVICE

CERTIFIED FINANCIAL PLANNER®

PROFESSIONAL PRACTICE

FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

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2017 Federal Budget

PRESENTED BY

MELINDA PLANKEN

Budget 2017 key take outs for our clients…..

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1. Home Proceeds to Superannuation - up to $300,000 per home owner can be added to super regardless of age, work test and $1.6m cap!
2. Pensioner Concession card to be reinstated for those that lost the pension as of 1 January 2017.
3. Medicare Levy will increase to 2.5% of taxable income from 1 January 2019 to assist with the costs of the National Disability Insurance Scheme.
4. Eligible pensioners will be entitled to a one-off Energy Assistance Payment of $75 for singles and $125 per couple from 20 June 2017.

Budget 2017 other key take outs.....

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1. First Home Buyers can salary sacrifice into super and use those contributions towards a first home deposit up to $30,000.
2. Bank Levy of 0.06% to impact the large four banks along with Macquarie. If passed, should raise $6 billion over the next 4 years.
3. Small businesses will be able to immediately deduct purchases of eligible assets costing less than $20,000
4. Inland Rail Network linking Brisbane to Melbourne receiving $8 billion investment.

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Superannuation changes from July 2017

PRESENTED BY

ANDREW TORNEY

Background

From 1 July 2017, the first of a range of superannuation reforms announced in the 2016 Federal Budget will take effect.

Despite the many changes Super still remains an extremely tax-effective means to build wealth.

Tax on earnings during accumulation phase is capped at 15% and once transferred to a superannuation pension after retirement tax on earnings are 0%.

There continues to be no tax on super withdrawals after age 60.

Tax Rates on investment earnings		
Personal name	**Super**	**Pension**
Up to 49%	Up to 15%	nil

Reforms at a glance

1. Concessional Contribution cap will reduce to $25,000 per annum for all individuals
2. All individuals can now make personal concessional contributions (previously only self-employed)
3. Non-concessional contributions reduced to $100,000 per annum (and bring forward reduced to $300,000)
4. A $1.6 million lifetime limit will apply to pension accounts
5. Removal of tax free earnings on Transition to Retirement (TTR) pensions
6. Removal of the Anti-detriment benefit

Concessional (tax-deductible) Contributions

	Current (before 30 June 2017)	New (from 1 July 2017)
Under age 49	$30,000 per annum	$25,000 per annum
Age 49 and over	$35,000 per annum	

Concessional contributions include:

- Superannuation Guarantee contributions (9.5%)
- Salary Sacrifice contributions
- Personal concessional contributions

<u>Opportunities</u>

- Review Salary Sacrifice arrangements
- Maximise concessional contributions before 30 June

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Personal Concessional Contributions

Currently, in order to make personal concessional contributions as a lump-sum you are required to be substantially self-employed or not employed.

From 1 July all individuals who are eligible to contribute to super can make lump-sum concessional contributions up to the $25,000 cap.

<u>Opportunities from July 1</u>

- Lump-sum concessional contributions can be used to maximise contributions up to the $25,000 cap
- Capital Gains Tax can be reduced by making lump-sum concessional contributions

Non - Concessional Contributions

Current (before 30 June 2017)	New (from 1 July 2017)
$180,000 per annum	$100,000 per annum

The 3 year 'bring forward provisions'

Allows individuals under the age of 65 to 'bring forward' a further 2 financial years of contributions into the current financial year.

Current bring forward (before 30 June 2017)	New bring forward (after 30 June 2017)
$540,000	$300,000

Opportunities

Any lump-sum amounts over $300,000 should be contributed prior to 30 June 2017, especially if nearing age 65.

$1.6 million Lifetime "Transfer balance cap"

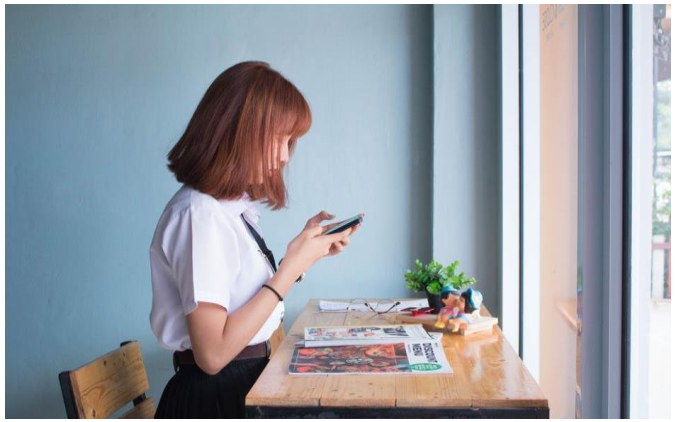
- $1.6 million cap (the transfer balance cap) on the amount of capital that can be ***transferred or held*** into the tax-free retirement (pension) phase.
- Cap is made up of account-based pension balances plus defined benefit pensions using a 16 times multiple of gross annual pension.
- Existing pensions (account balance as at 1 July) count towards the cap
- Only applies to ***retirement phase*** superannuation income streams (i.e. TTR pensions are not counted towards the cap).
- Cap to be subject to proportional indexation annually by CPI in $100,000 increments (CPI would need to increase by 6.25% for the first indexation).
- Once the cap is maximised individuals can no longer contribute to super.

Calculating your transfer balance cap

- Sandra has a Commonwealth Super Scheme (CSS) defined benefit pension of $2,884.61 per fortnight ($75,000 per annum)
- Sandra has an account-based pension with a balance of $600,000 on 1 July 2017.

- Sandra's Cap is calculated as:
  - $600,000 (account-based pension balance)
  - $1,200,000 ($75,000 x 16 - defined benefit pension multiple)
  - **$1,800,000**

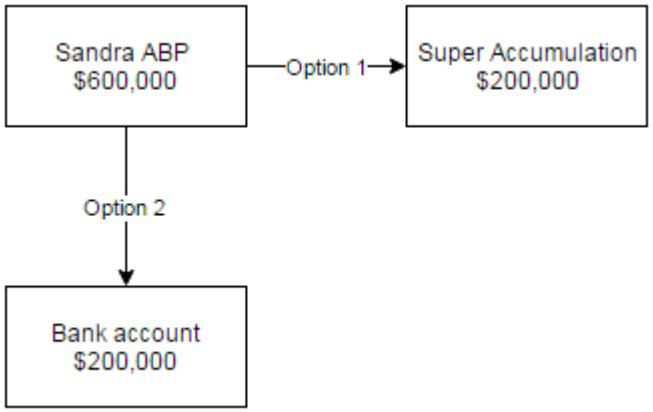
- Sandra is over the TBC by $200,000.



$1.6 million Lifetime "Transfer balance cap" Action required by 30 June 2017

By 30 June 2017 members of superannuation funds who are currently over the $1.6 million cap will be required to either:

1. Roll funds back to superannuation accumulation phase
2. Withdraw money from the pension into your personal name



It is important that this is done prior to 30 June as penalties will apply

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Advice Opportunities

1. Withdraw funds from superannuation and re-contribute into spouse's name.

2. Trigger CGT whilst in pension phase (0% tax payable) and repurchase assets to reset cost base.

3. Draw minimum from tax-free pension and top-up income with lump-sum withdrawals from super.

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Transition to Retirement (TTR) Pension changes

Current TTR strategies involve a client continuing to work, commencing a TTR income stream, and using income stream payments to meet expenses while generally maximising salary sacrifice contributions.

This strategy provides two separate benefits:

- Earnings on TTR assets are exempt from tax.
- TTR payments may be more concessionally taxed.

From 1 July the following changes will reduce the effectiveness of TTR strategies

1. Earnings in a TTR pension will be taxed at the same rate as a super accumulation account (i.e. 15%).
2. The reduction in the concessional cap to $25,000 impacts salary sacrifice opportunities.

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Anti-detriment benefit removal

What is an anti-detriment benefit?

This only relates to death benefits from superannuation.

From 1 July 2017 the anti-detriment benefit is being abolished. This means that in most cases net superannuation death benefit payments will be reduced.

For example, if a deceased member had a superannuation interest of $100,000 (100% taxable component), the following table summarises the lump sum death benefits net of tax:

Paid to deceased's	With anti-detriment	Without anti-detriment
Spouse or minor children	$117,500	$100,000
Adult children	$97,650	$83,000

Anti-detriment benefit

What can you do?

1. If your preferred beneficiary is a tax dependent such as your spouse or children under 18 they will receive the full amount tax-free, however, will not receive the 'bonus' anti-detriment benefit.

2. If your preferred beneficiary is a non-tax dependant (e.g. adult children) then the following could be considered:
   - Withdrawal and re-contribution strategy.

Recap

1. Concessional Contribution cap will reduce to $25,000 per annum for all individuals
2. All individuals can now make personal concessional contributions (previously only self-employed)
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Withdrawal and re-contribution strategy

The Basics

- Involves withdrawing taxable portion of your superannuation.
- Then re-contributing to superannuation (either in your name or a spouses) as a non-concessional contribution.
- Results in taxable portion re-entering super as tax-free portion.

Example

- Terry is 64, retired and single and has a superannuation account of $700,000. The fund is 100% taxable
- Terry has named his 3 adult children as beneficiaries of the fund.

Example

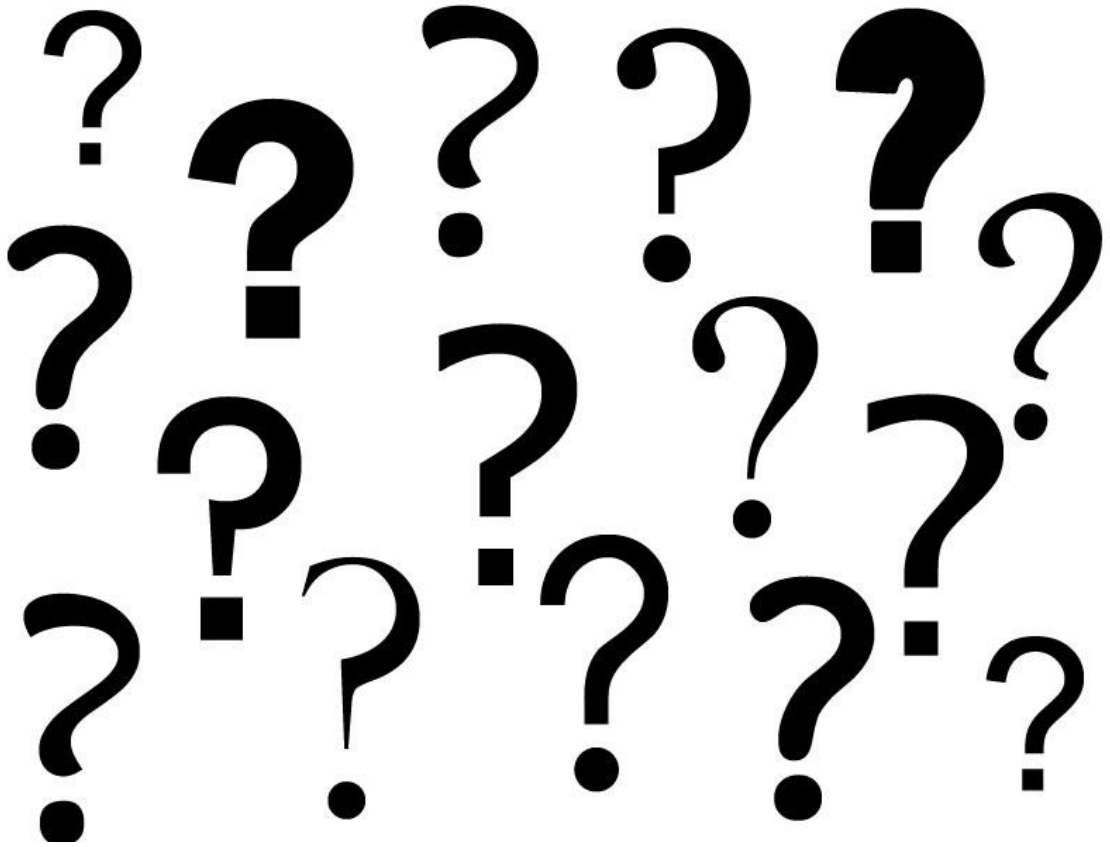
- On the advice of his financial adviser Terry withdraws a total of $540,000 from super to his bank account.
- As Terry is over age 60 the entire $540,000 is received tax-free.
- Terry then recontributes the entire $540,000 as a non-concessional contribution using the 'bring-forward provisions'.*
- Terry has converted $540,000 of taxable super into tax-free super for his beneficiaries.

Outcome

Net amount received by Terry's Children		
Before strategy	After strategy	Tax saving
$581,000	$672,800	$91,800

*Using current 'bring-forward provisions' prior to 1 July.

Question Time



Questions asked

Q. With tax to non-dependants at 17%, would it be worthwhile withdrawing my superannuation on my death bed to avoid this tax (assuming your beneficiaries are non tax dependants)?

A. The short answer is yes, if you have no tax dependants this makes sense, however we believe it is unlikely that this will be front of mind if you're on your death bed. Over time, with good financial advice you may look to gradually transfer assets out of Super/Pension and invest in your personal name, however personal tax needs to be considered.

Questions asked

Q. Do you foresee any changes to the taxation of super and pensions in future years?

A. Whilst we are unable to predict the future, the Government is limiting the amount that people can have in the concessionally taxed super environment via the following measures:

- lower contribution caps
- the $1.6 million transfer balance cap.

Accordingly, we hope that Super may be left alone for a while.

Q. Does the anti-detriment payment apply to defined benefit accounts as well?

A. Anti-detriment payments are only paid by some funds and not others, it depends on the Trustee of the fund. We suggest you check with the Trustee of your fund, however given anti-detriment payments being abolished from 1 July 2017 it may be irrelevant.

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