Post Election Super Strategies 2016

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Significant Superannuation Reforms

1. Implementing a limit on tax free earnings for pension funds
2. Changes to concessional contributions
3. Changes to non concessional contributions
4. Changes to a number of other superannuation strategy rules
5. Changing the taxation status of Transition to Retirement Pensions
6. SMSF Strategy Considerations

$1.6m maximum limit for 0% tax on pensions

- Currently, there is no limit to how much funds can be invested in a pension and still be entitled to the concessional 0% taxed environment

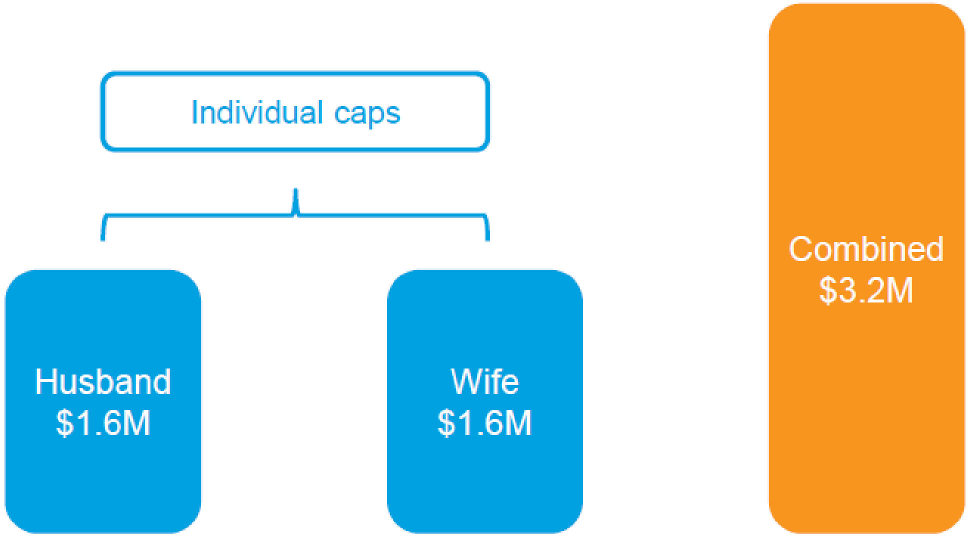
Proposal

- From 1 July 2017, each individual will be limited to $1.6m to be invested in the 0% taxed Pension environment
- Anything above that amount will be held in Accumulation and taxed at 15%

Limiting the 0% earnings tax on super funds

Getting the most out of the cap

- Couples need to avoid disproportionate super balances



Target a combined $3.2M cap for couples

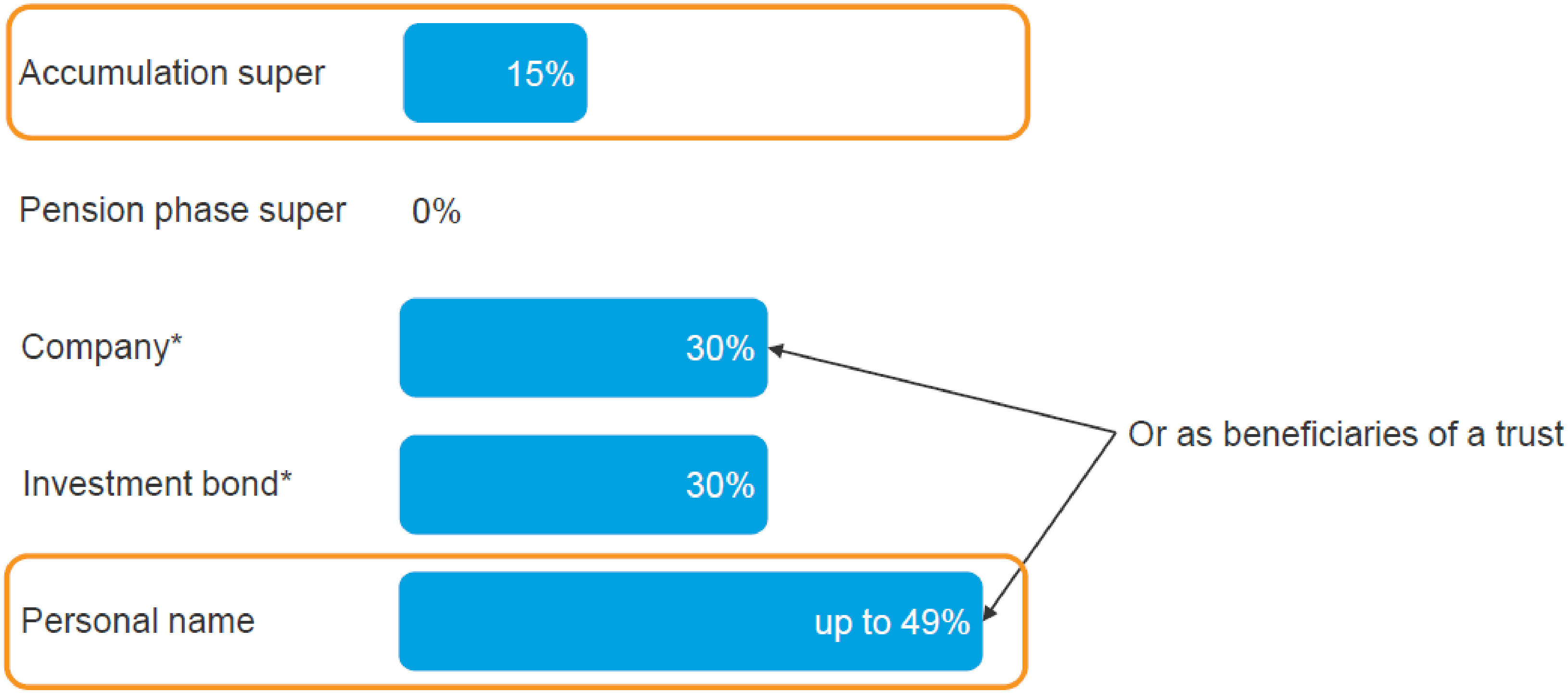
Use strategies to optimise the 0% tax benefits

- Super splitting
- Spouse contributions
- Intra-spouse recontributions
- Government co-contributions
- Non-concessional contributions
- Maximise LISTO
- Carry forward concessional contributions

Reduced caps mean long term planning required

Choose your ownership structure carefully

- Investment structure alternatives



* Reducing to 25% over ten years

Retirement Strategies

Options for HNW clients

Example – Roger, 65

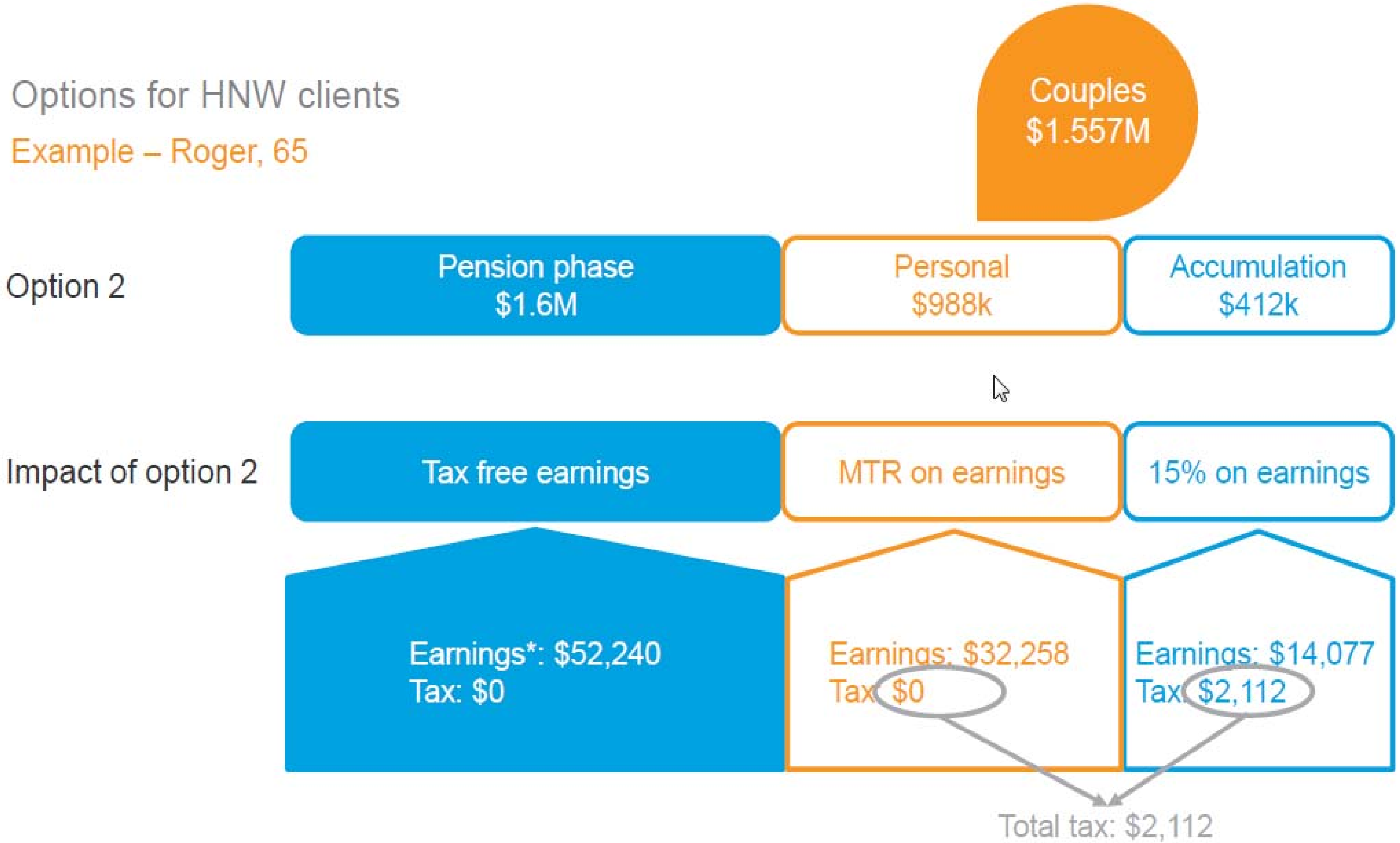
Option 1	Pension phase $1.6M	Accumulation $1.4M
Impact of option 1	Tax free earnings	15% on earnings
	Earnings*: $52,240 Tax: $0	Earnings: $47,833 Tax: $7,175

*Earnings that would otherwise be taxable if in accumulation

Retirement Strategies

Options for HNW clients

Example – Roger, 65



Retirement Strategies

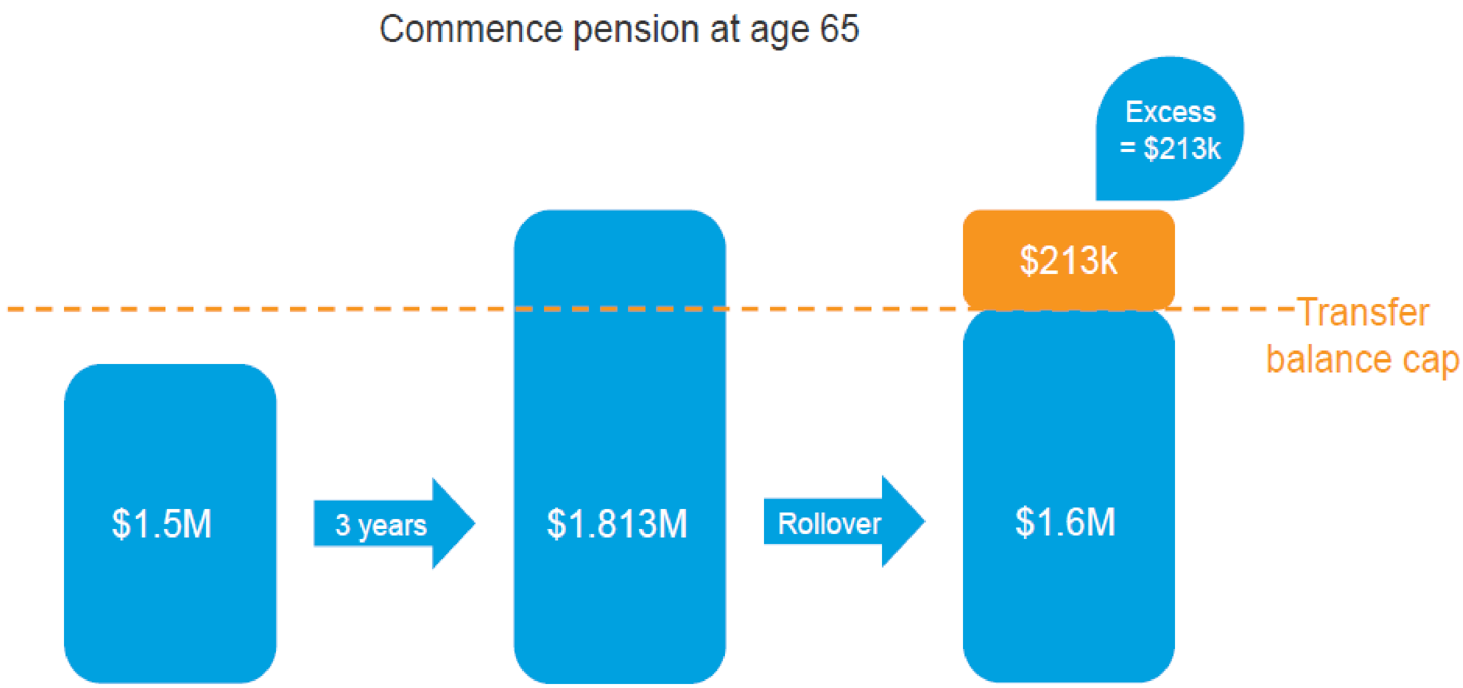
Options for HNW clients

- Factors to consider:
  - Realisation of capital gains
  - Growth in income over time in personal names
  - Death benefit taxes on super to non-dependants

Optimising the 0% taxed structure

Commencement time – maximising growth ‘under’ cap

Example – Rowena, 62, retired



Changes to Concessional Contributions

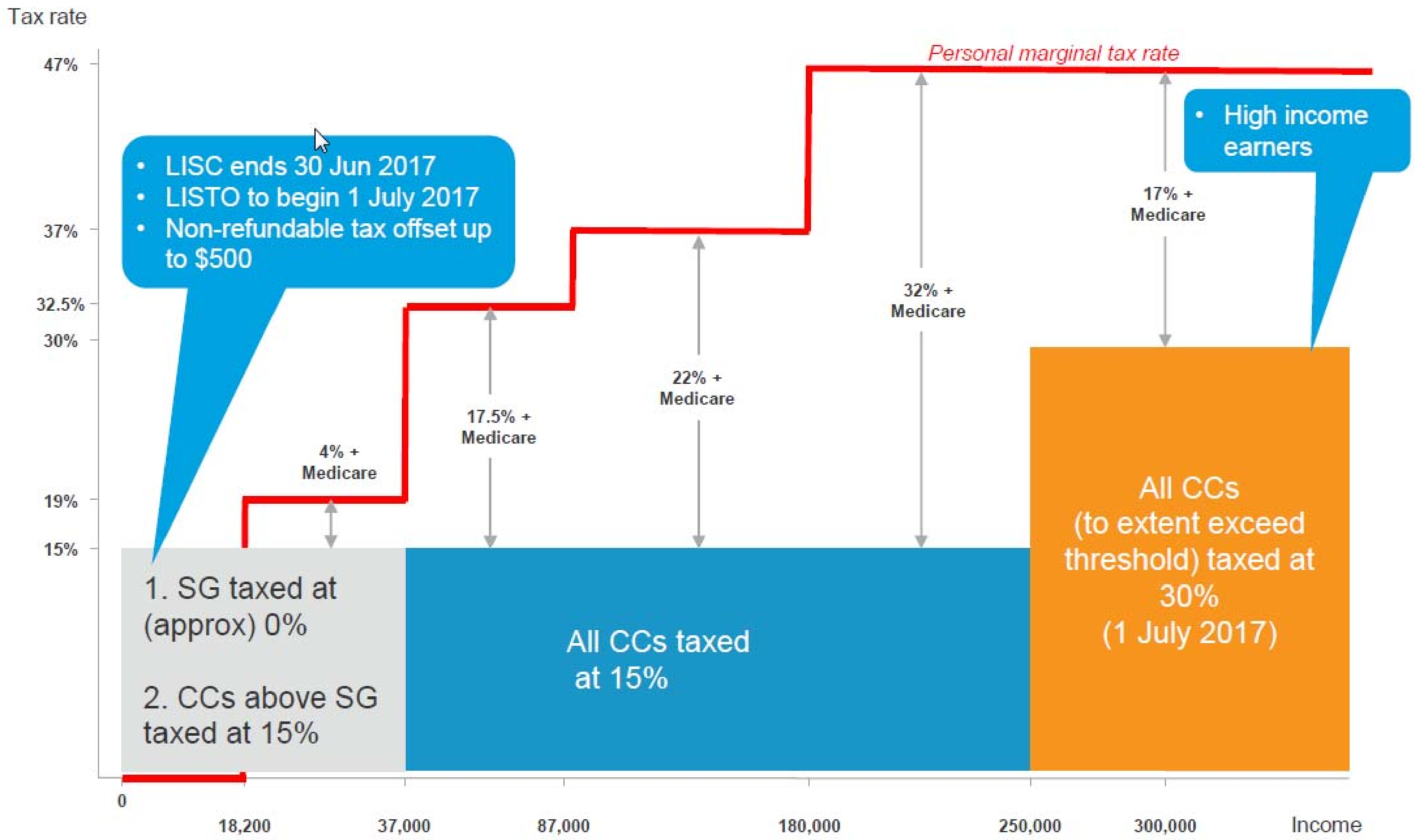
Current

- Currently, concessional contributions are as follows:
  - Under age 50: $30,000pa
  - 50 and over: $35,000pa
- The super fund then pays tax at 15% (or 30% if the individual has income in excess of $300,000pa (Division 293 threshold))

Proposal

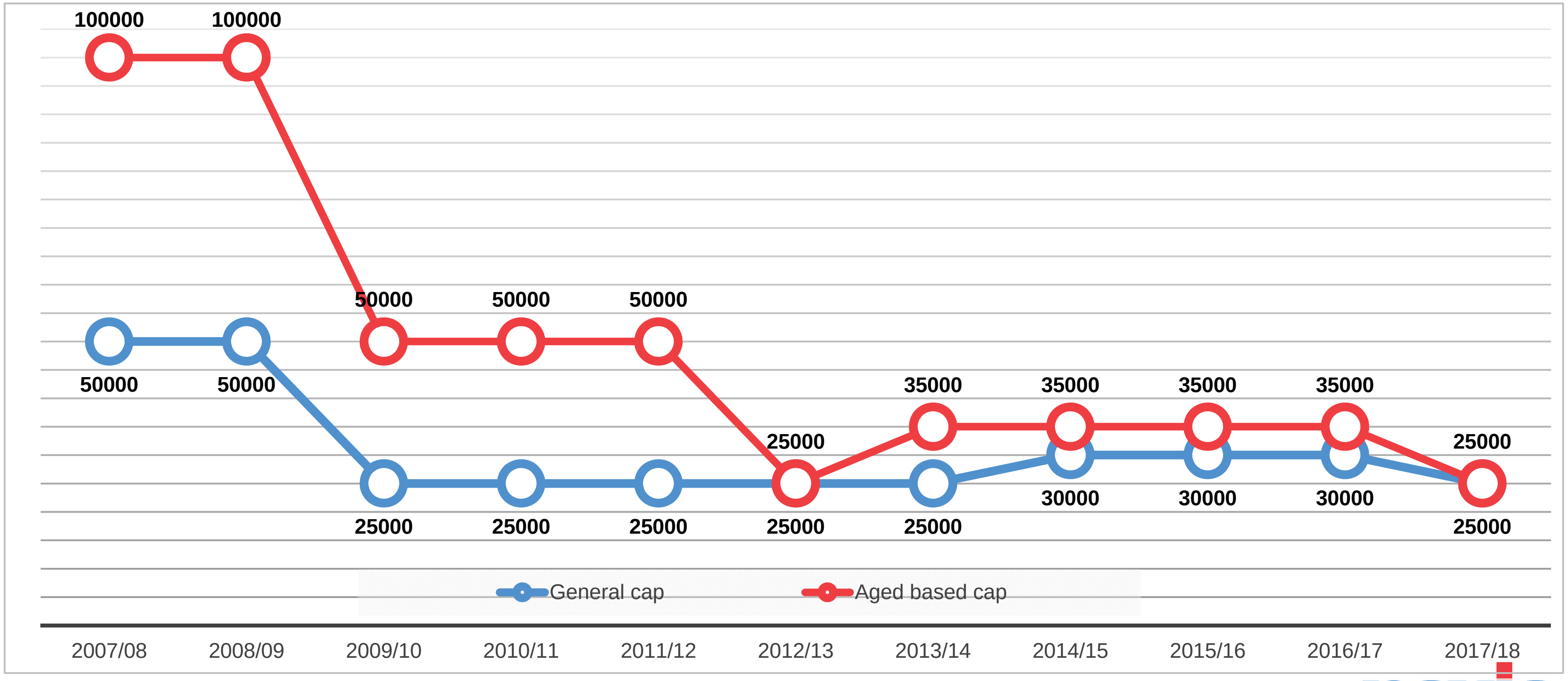
- The taxation of concessional contributions remains the same but, from 1 July 2017, the maximum concessional contribution will be limited to $25,000pa for all age categories
- The 30% tax threshold is to be reduced to income of $250,000pa
- Catch up contributions are to be allowed from 1 July 2018

Changes to Concessional Contributions



Changes to Concessional Contributions

$25k concessional cap for all



Changes to Concessional Contributions

Allow catch-up concessional contributions

What we know	The unknowns
Unused portion of CC cap carried forward on a rolling 5 year period	Will the $500k be indexed?
Effective from 1 July 2018 (2019/20 first catch-up opportunity)	Who will keep track of unused CCs?
Not a bring forward entitlement	When will the $500k be measured?
Must have less than $500k in super	

Example – Potential to make a CC of as much as $125,000

Rolling 5 year carry forward	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Current yr CC Cap	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000
Salary	$100,000	$0	$0	$0	$0	$100,000	$100,000
Less SG Contributions	$9,500	$0	$0	$0	$0	$11,000	$11,500
Unused CC Cap	$15,500	$25,000	$25,000	$25,000	$25,000	$14,000	$13,500
Previous Yr bring fwd	$0	$15,500	$40,500	$65,500	$90,500	$115,500	$114,000
Lapsed bring fwd	n/a	n/a	n/a	n/a	n/a	$15,500	$15,500
Additional CC capacity	$15,500	$40,500	$65,500	$90,500	$115,500	$114,000	$112,000

Changes to Concessional Contributions

Tax deductions for personal super contributions

What we know
From 1 July 2017, 10% rule will be removed
Eligible to claim a deduction regardless of employment circumstances*
Allows all individuals to make CCs up to the CC cap
Deductions limited to assessable income
Tax deduction election process remains unchanged

* Members of certain prescribed funds will not be entitled to deduct contributions to those schemes.

Limiting Non Concessional Contributions

Current

- Non Concessional Contribution limit:
  $180,000pa or
  $540,000 over a three year period of time (the bring forward rule)

Proposal

- To reduce the limits on 1 July 2017 to:
  $100,000pa or
  $300,000 over a three year period of time (the bring forward rule)

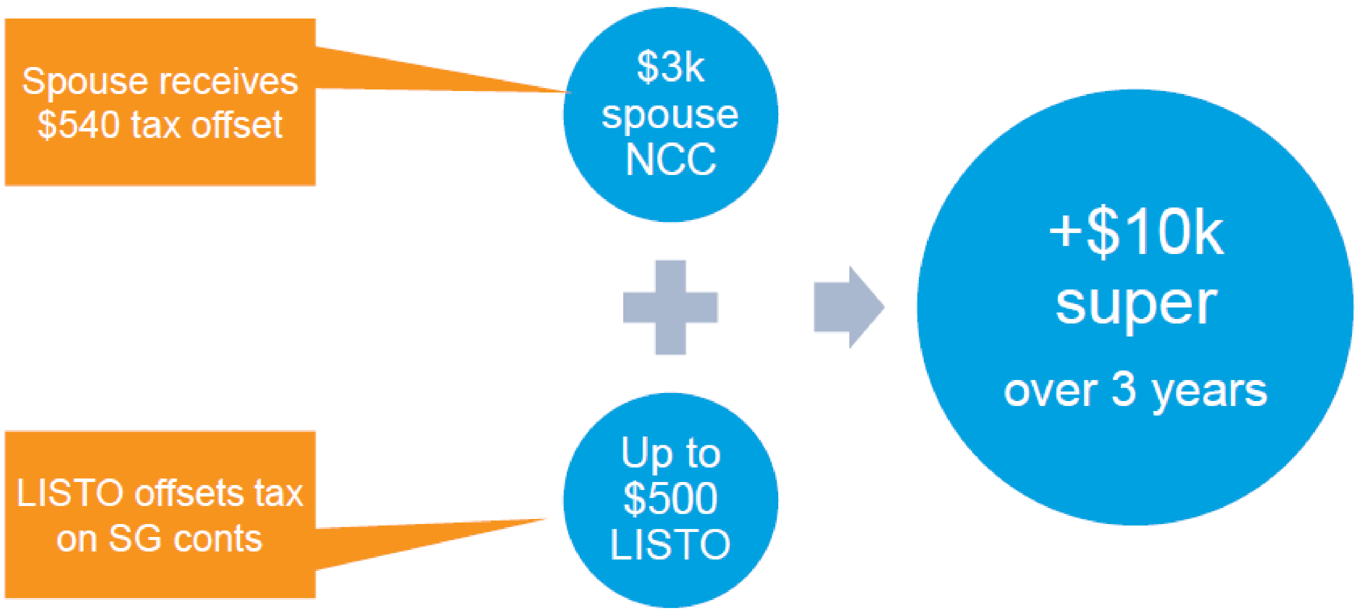
Other Superannuation changes from 1 July 2017

- Work Test to remain in place after age 65 in order to make contributions through to age 75
- Retention of Low Income Super Tax Offset (ie refund of contributions tax on SGC up to $37,000)
- Extension of the Spouse Contribution rebate. $540 for a $3,000 contribution is allowable now for spouse income up to $37,000pa (maximum of $500 rebate)
- Retention of the co contribution ($500)

Example

Example - Laura

- Age 35, earns $100,000 pa
- $50,000 in super – only receives SG contributions
- Takes one year unpaid maternity leave in 2018/19
- Works part-time (30% or $30,00 salary) for 2 years



Changing the taxation of the Transition to Retirement Pension Strategy

- Currently, anyone over their preservation age (i.e. age 56) can commence a TTR Pension which allows individual to use the 0% taxed pension environment
- A certain amount of income must be taken each year (minimum 4% based on age, maximum 10%) and this will be concessionally taxed depending on the person's circumstances

Proposal

- It has been proposed that all TTR Pensions (both new and existing) will be taxed on their earnings at 15% (from 1 July 2017)

Strategy Consideration – Last Opportunity to use TTR strategy

If over the age of 56, it could be beneficial to commence a TTR in the 2016/17 FY before the new rules commence. See your adviser

SMSF Strategy Considerations

- Segregation of Assets
- Reserving
  - Investment
  - Contributions
- Estate Planning
  - Binding Death Agreements
  - Reversionary Pension elections
- LRBAs – Related Party Loans

  ATO issued an ultimatum in Oct 2015:

  - SMSF have until January 2017 to get these loans on “commercial terms”

Using a contributions reserve strategy

Concessional Contribution of $35,000 (between 1 July 2016 and 30 June 2017)

- Assessed for tax under current rules

Concessional Contribution of $25,000 (between 1 June 2017 and 30 June 2017)

- Assessed for tax under current rules

SMSF Trustee to allocate second contribution to a reserve

- Must be done in the final month before year end

On 1 July 2017, reserve allocated to member's contribution account for 2017/18

Estate Planning – super death benefits

Superannuation death benefits are paid to beneficiaries under the terms of the trust deed.

Trust deeds are generally flexible and allow for the following:

(a) Reversionary pensions;

(b) Binding death benefit nominations;

(c) Trustee’s discretion

Strategies to minimise impact of change?

- Proposed changes are not yet law

- 2016/17 represents an excellent opportunity to take advantage of the current arrangements before they are replaced with the new rules
  - Concessional Contributions limit of $30,000 or $35,000 if over age 50
  - Non Concessional Contributions Limit of $180,000 or $540,000 if the individual has not yet utilised the 'Bring Forward Provisions'
  - 1 year opportunity to utilise the TTR Income Stream to tax efficiently provide income and wealth accumulation

- Individuals using a SMSF for their super accumulation could also consider using the 'bring forward' contribution reserve strategy

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2. Which ownership structure
3. Comparison of your current super funds to 'Best of Breed' Industry fund, wrap account and SMSF
4. Risk Management And Insurance strategy
5. Estate planning Strategy

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Thank you