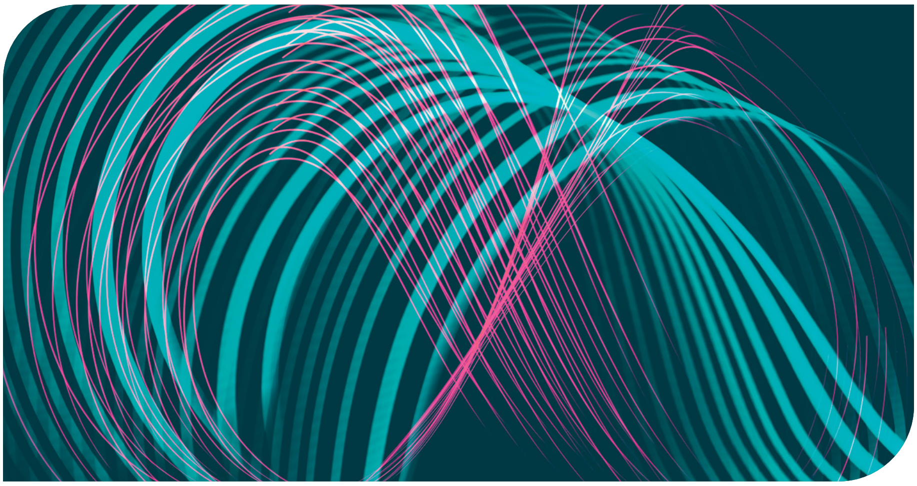
Nexia Australia

Superannuation Solutions

Edition 27



Welcome

Welcome to the latest edition of our Superannuation Solutions Newsletter.

In this edition we discuss the upcoming increases to key superannuation caps from 1 July 2026 and the planning opportunities they may present, as well as the introduction of Division 296 tax on super balances exceeding $3 million. We also examine the new restrictions on SMSF borrowing arrangements for residential property, including what the changes mean for existing and future LRBAs.

We hope you find this newsletter informative. Should you have any questions in relation to how these changes may impact you, please contact one of our SMSF Specialists.

Important Dates

10 August 2026
New restrictions commence on SMSF LRBAs used to acquire real property. New borrowings will generally be limited to business real property.

28 October 2026
Deadline for employers to make Super Guarantee contributions for the September 2026 quarter.

31 October 2026
Due date for lodgement of the annual returns for SMSFs that are either newly established (if not using a tax agent) or have overdue prior year returns.

28 November 2026
Due date to lodge and pay the Super Guarantee Charge statement where September 2026 quarter SG contributions were not made on time.

Super caps increasing from 1 July 2026

Due to indexation, several key superannuation caps will increase from 1 July 2026. While the changes may appear incremental, they can create meaningful planning opportunities, particularly for clients considering making contributions or commencing retirement phase pensions.

Key Changes at a Glance

Cap	Current	From 1 July 2026
Transfer balance cap	$2,000,000	$2,100,000
Concessional contribution cap	$30,000	$32,500
Non-concessional contribution cap	$120,000	$130,000

Transfer Balance Cap

The transfer balance cap (TBC) limits how much can be transferred into tax-free retirement phase pensions. The general TBC will increase to $2.1 million from 1 July 2026.

Each individual has a personal TBC based on when they first commence a retirement phase pension. Importantly, only unused cap space is indexed. This means clients who have already fully utilised their cap will not benefit from future increases. Where only part of the cap has been used, proportional indexation may apply.

Planning opportunity

Clients intending to commence a retirement phase pension may benefit from delaying commencement until after 30 June 2026 to access the higher transfer balance cap.

Contribution Opportunities

The increase in the transfer balance cap may also create new contribution opportunities. For example, individuals with a total super balance between $2.0 million and $2.1 million at 30 June 2026 may once again become eligible to make non-concessional contributions.

Bring-Forward Rules

The increase in caps will also affect the bring-forward rules. Depending on a client's total super balance, the maximum non-concessional contributions available may increase to:

- $130,000 (no bring-forward)
- $260,000 (two-year bring-forward)
- $390,000 (three-year bring-forward)

What This Means for You

These changes create a number of opportunities depending on your circumstances, including increasing contributions from 1 July 2026, accessing additional pension capacity, and revisiting bring-forward strategies. Timing will be critical, particularly around the end of the financial year.

How Nexia Can Help

With year-end approaching, now is an ideal time to review your superannuation strategy and ensure you are well positioned to take advantage of the upcoming changes. Please contact your Nexia advisor to discuss how these changes apply to your individual circumstances.

Tax on large super balances now law

The additional tax on super earnings of super members who have a total super balance of more than $3m (new Division 296 of the tax law) is now law.

The legislation reflects the changes announced in December to the original proposal, which would have taxed unrealized gains in super. The legislation is complex, and this is only a summary of the most important aspects, particularly as they affect the members of SMSFs.

The new tax significantly impacts the super landscape, and we urge fund members to seek advice on how these changes may affect them. Significantly, part of the super earnings of a member with a TSB of over $10m could potentially be subject to tax at 40% (15% income tax and 15% + 10% Div 296 tax). At the same time, the proposed minimum tax on capital gains and discretionary trusts in the 2026 Federal Budget may make paying Div 296 tax in a super fund the preferable option.

Effect of 2026 Federal Budget

Although there were no changes to the taxation of super funds in the Budget, these changes affect how super funds compare with other investment vehicles:

The capital gains tax rules are to be changed for assets sold after 30 June 2027. Broadly:

- the 50% CGT discount is still available on the part of any capital gain accrued to 30 June 2027, but the part of the capital gain accrued after that date will be calculated by indexing the cost base for CPI movements (a return to the method used up to 1999);
- the part of any capital gain on "pre-CGT assets" (acquired before 20 September 1985) accruing after 30 June 2027 will be subject to CGT, and
- a minimum 30% tax will be applied to the part of a capital gain of a resident individual accruing after 30 June 2027, with certain exceptions.

The other major change announced is that the taxable income of discretionary trusts (including most family trusts) will be subject to a minimum tax of 30% from 1 July 2028. Beneficiaries (other than companies) will be allowed a non-refundable credit for the tax paid by the trust. There will be no refund of tax If the beneficiary's marginal tax rate is less than 30%. Company beneficiaries will effectively be taxed twice on trust income, as companies will not be entitled to the non-refundable credit for tax paid by the trustee, so the use of "bucket companies" will probably end.

Overview of Division 296 tax

The new tax will from the 2026-27 tax year on members of super funds who have a total super balance (TSB) of $3m or more at the end of the year. As an "integrity measure", from the 2027-28 year, if a member's TSB at the end of a year is less than their TSB at the start of the year, the larger TSB will be used.

Foreign super funds are excluded from the TSB calculation, and special provisions allow for the deferral of payment of tax from defined benefit super funds.

The tax will be imposed on individual members, but they will have the option of paying the tax from their super funds. This tax will be in addition to the usual 15% income tax imposed on super funds.

Where a member's TSB at the end of a year is:

- Less than $3m – no Division 296 tax is imposed
- Equal to or greater than $3m but less than $10m – Division 296 tax will be imposed at 15% on a proportion of the member's total super earnings calculated as the proportion of the member's TSB over $3m, and
- Equal to or greater than $10m – additional Division 296 tax will be imposed at 10% on a proportion of the member's total super earnings calculated as the proportion of the member's TSB over $10m.

The thresholds will be indexed periodically by movements in the CPI.

Calculation of Division 296 tax

Essentially, if a member is liable for Div 296 because their TSB is greater than $3m, Division 296 tax will be levied on the total of their shares of the Division 296 fund earnings in all super funds of which they are a member. For SMSFs and APRA funds with 6 or fewer members, earnings will be attributed based on the member's time-weighted share of the fund's assets over the relevant income year. These will be required to obtain an actuarial certificate to perform the relevant calculations and provide the attribution share to the ATO.

The calculation of Division 296 fund earnings is based on the fund's taxable income, but there are significant adjustments. Broadly, Division 296 fund earnings are:

- Fund's taxable income or tax loss
- Less: assessable contributions
- Add: net exempt current pension income
- Less: any non-arm's length income

The fund's taxable income will include gross ups for franking credits and foreign income tax offsets, even though these cannot be used to reduce Div 296 tax.

Tax losses and net capital losses can be carried forward and used in future years (with some modifications specifically for Div 296 purposes). To shield unrealised capital gains accrued before 1 July 2026, SMSFs and APRA funds with 6 or fewer members can elect to adjust (for Div 296 purposes only) the cost base of all CGT assets held on 30 June 2026 to the market value on that day. The election will have to be made by the end of the due date for lodging the fund's 2026-27 annual return, and will apply to all CGT assets held by the fund on 30 June 2026.

Please contact your Nexia advisor if you want more information on these complex and significant changes to the super landscape.

New restrictions on LRBAs and residential property

In what was a first for many years, the 2026 Federal Budget contained no significant changes to the operation or taxation of self-managed superannuation funds (SMSFs). However, that position changed shortly afterwards. As part of the agreement reached to secure passage of the Government's broader tax reform legislation through the Senate, the Federal Government supported amendments to restrict the ability of superannuation funds to enter into new limited recourse borrowing arrangements (LRBAs) involving residential property.

The measure was presented as a response to concerns about SMSF borrowing for residential property. In the Senate debate, the Government noted that multiple inquiries had raised concerns that these arrangements may increase risks for superannuation investors, and that limiting new arrangements going forward was intended to help protect retirement savings.

The legislation has now passed and received Royal Assent on 26 June 2026. The new restrictions apply to LRBAs entered into on or after 10 August 2026, being 45 days after Royal Assent. Existing arrangements are not affected, and the rules do not prevent the refinancing of an LRBA that was already in place before that date.

Importantly, the legislation does not simply define and exclude "residential property". Instead, it changes the LRBA rules so that, where the asset being acquired is real property, the property must be "business real property" within the meaning of section 66 of the Superannuation Industry (Supervision) Act 1993.

Broadly, business real property is real property that is used wholly and exclusively in one or more businesses. This concept is already familiar in the SMSF context, particularly because business real property can generally be acquired from a related party at market value and is generally not treated as an in-house asset.

A common example is a commercial premises used in a business, such as a warehouse, office, medical practice or other business premises leased to a related or unrelated operating entity. These types of arrangements may continue to be eligible for LRBA funding, provided the property satisfies the business real property definition and all other SMSF borrowing requirements are met.

However, the drafting of the new rules means that the key question is not merely whether a property is "not residential". The property must positively satisfy the definition of business real property. This may create uncertainty for some property types or arrangements, particularly where the use of the land does not clearly involve a business being carried on.

Professional associations are expected to continue raising these issues with the Federal Government. It is possible that further amendments may be introduced later in 2026 to clarify the operation of the new LRBA prohibition. Until then, SMSF trustees and advisers will need to work within the legislation as enacted.

The new rules do not prevent SMSFs from acquiring residential property using existing fund cash, nor do they prevent SMSFs from holding residential property already acquired. However, from 10 August 2026, new borrowing arrangements for real property will effectively be limited to property that qualifies as business real property.

Trustees who are considering a property acquisition through their SMSF should seek advice early to ensure the proposed investment structure complies with the new rules and remains consistent with the fund's investment strategy.

Nexia Australia

Who we are

At Nexia Australia, we're here to help you achieve your goals and plan for future success with bespoke solutions and personalised, practical advice. Equipped with unparalleled experience and expertise in advisory, tax, audit, business strategy, personal wealth services, and strategic thinking, we're the team you can trust to empower you to achieve your objectives and reach new heights.

We specialise in several key industries and cater to a wide range of clients, from small to medium-sized businesses to large private company groups, not-for-profit entities, subsidiaries of international companies, publicly listed companies, and high-net-worth individuals. We've had the privilege of working with market leaders in many sectors of Australian and New Zealand business, and we're here and ready to help you too.

We take pride in being responsive, progressive, and proactive in identifying and implementing the solution to your success.

Contact us

Learn how Nexia Australia can help set you and your organisation up for success. Contact your local Nexia Advisor below to get started.

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