Federal Budget Update

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HORIZON
Self Managed Super Administration

The 2016 Federal Budget includes a number of proposed changes to the concessional status of superannuation.

It is important to remember that what follows is a series of proposals that must be passed by Federal Parliament before they become law. The pending Federal election may make implementation of some Budget measures difficult.

Please contact us if you would like to discuss any aspect of these proposed changes.

Lifetime cap on non-concessional contributions

The previous $180,000 annual and $540,000 three year bring forward non-concessional (i.e. not tax deductible) cap on superannuation contributions was removed with effect from 7:30pm on 3 May 2016.

In its place, a lifetime non-concessional cap of $500,000 will apply. The lifetime cap is calculated for non-concessional contributions that have been made at any time from 1 July 2007. Those with existing non-concessional contributions above that cap can retain them in their superannuation fund.

Concessional contributions cap reduced

The concessional (i.e. tax deductible and/or employer) contribution caps are currently $30,000 for those under age 50 and $35,000 for older people.

From 1 July 2017 this will change to a single concessional contribution cap of $25,000.

Tax exemption on transition to retirement income stream earnings removed

From 1 July 2017 members with a Transition to Retirement Pension account will no longer have the earnings on that account tax free within the superannuation fund.

Further, a recent strategy used by some to elect to treat their transition to retirement pension payments as a lump sum for tax purposes will be removed.

30% tax on superannuation for high income earners

Currently individuals with combined income and superannuation contributions of more than $300,000 pay an additional contributions tax of 15% on concessional contributions. From 1 July 2017 this income threshold will reduce to $250,000.

Tax free superannuation balances capped at $1.6 million

From 1 July 2017 there will be a starting “cap” of $1.6 million that can be used to fund a fully tax free retirement pension after age 60. This will be achieved as follows:

Individuals Commencing a Pension on or after 1 July 2017:

- A maximum sum of $1.6 million will be able to be used to fund a member’s pension account upon which its earnings will remain tax free within the superannuation fund. The $1.6m is then able to be increased by those earnings.
- If the member has more than $1.6 million in superannuation when they commence a pension, the excess over $1.6 million must remain in an accumulation account within the fund. The income from that accumulation account will continue to be taxed in the fund at 15% (or 10% for long term capital gains).

Individuals Already Receiving a Pension at 30 June 2017:

- Members already in the pension phase at 1 July 2017 with balances in excess of $1.6 million will be required to either:
    - Transfer the excess above $1.6 million back into an accumulation phase account with income thereon taxed in the fund at 15% (or 10% for long term capital gains); or
    - Withdraw the excess.

Anti-detriment provisions removed

The anti-detriment provision will be removed from 1 July 2017. The rules currently allow a refund of a member’s lifetime superannuation contributions tax payments into an estate where the beneficiary is a dependent of the member.

Tax deductions on superannuation contributions expanded

All individuals up to age 75 will be able to claim an income tax deduction for personal superannuation contributions from 1 July 2017. This effectively allows all individuals, regardless of their employment status, to make concessional superannuation contributions up to the concessional cap.

Superannuation benefits for low income earners
Low Income Superannuation Tax Offset - this measure will effectively eliminate the contributions tax in relation to individuals with taxable incomes up to $37,000.

The superannuation fund receiving the individual's concessional contributions will receive a 15% tax offset to a maximum of $500 (equivalent to concessional contributions of $3,333).

Boosting the superannuation balance of a spouse
The Government will increase access to the low income spouse superannuation tax offset by increasing the low income spouse's income threshold from $10,800 to $37,000. The maximum offset remains at $540. The date of effect of this change is 1 July 2017.

"Catch up" concessional contributions
Individuals whose superannuation balance is less than $500,000 will be able to make additional concessional contributions if they have not reached the concessional contributions cap in previous years. Amounts are carried forward on a rolling basis for a period of five consecutive years and only unused amounts accrued from 1 July 2017 can be carried forward.

Removing contribution restrictions for those aged 65 to 74
The work test will be removed from 1 July 2017. This will allow anyone between the age of 65 and 74 to make superannuation contributions, both concessional and non-concessional, in the same way as those aged under 65.

Choice in retirement products
With effect from 1 July 2017 the Government will remove tax barriers to the development of new retirement products, for example by extending the tax exemption on earnings in the retirement phase to products such as annuity products.

Regards
The Team at Horizon Management

HORIZON
Self Managed Super Administration

Tel: 08 8410 5591 Fax: 08 8110 0977
Email: info@horizonmanagement.com.au
PO Box 8070 Station Arcade Adelaide SA 5000

25 Peel Street Adelaide SA 5000

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Our mailing address is:
Horizon Management
25 Peel street
Adelaide, SA 5000
Australia

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