Upcoming super changes – 1 July 2017

1 January 2017

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As part of the 2016 Federal Budget, the government announced a range of changes to super, coming into effect from 1 July 2017. This guide explains what the main changes to super are.

Changes to accumulation phase

<u>Concessional contributions cap reducing to $25,000 per year</u>

Concessional contributions include Superannuation Guarantee contributions, salary sacrifice contributions and personal contributions for which a deduction is claimed.

Under current rules, anyone over the age of 50 during a financial year has a concessional contribution cap of $35,000. Those under age 50 can make up to $30,000 in concessional contributions without creating an excess.

From 1 July 2017, the concessional contributions cap will reduce for everyone, regardless of age, to $25,000 per annum.

<u>Non-concessional contributions cap changing</u>

Non-concessional contributions include amounts contributed on an after-tax basis and are generally made by a person from their own savings.

Currently the annual non-concessional contributions cap is $180,000 and those under age 65 are able to ‘bring forward’ three years’ of their cap for an effective annual cap of $540,000 which can be used over three financial years.

From 1 July 2017, the annual cap is reducing to $100,000. Additionally, those with more than $1.6 million in total super assets (including defined benefits which are currently paying a pension) on 30 June 2017 will have their annual cap reduced to nil for the following financial year.

Whilst the bring forward rules are still in place, the number of years a person can bring forward is reduced based on how close they are to the $1.6m limit, as follows:

Balance is between	Maximum NCC cap available
$0 - $1.4m	$300,000 (up to three years annual cap)
$1.4m - $1.5m	$200,000 (up to two years annual cap)
$1.5m - $1.6m	$100,000 (no bring forwards available)
$1.6m+	nil

Transitional measures for bring forward periods

For people who triggered their bring forwards before 1 July 2017 and have not used them in full before this date, a lower cap will apply depending on the year the bring-forward was triggered:

- If the bring forward was triggered in the 2016/17 financial year, the cap from 1 July 2017 will be $380,000
- If the bring forward was triggered in the 2015/16 financial year, the cap from 1 July 2017 will be $460,000

Please note these caps are still subject to the $1.6 million threshold test. If the amount contributed prior to 1 July 2017 exceeds the lower cap from this date, no excess will arise however you will not be able to make any further non-concessional contributions until at least the end of the bring-forward period.

Changes to transition to retirement pensions

Currently it is possible for those who have reached their preservation age (between 55 and 60) to start a limited pension known as a 'transition to retirement' (TTR) pension. The earnings on investments within these pensions are currently tax-free, similar to a standard retirement pension. However, from 1 July 2017 earnings on assets backing transition to retirement pensions will be taxed at 15 per cent - the same rate which applies to super accounts.

The tax treatment of the pensions paid from a TTR have not changed. For example, a person over age 60 receives their pension payments free of tax.

Changes to retirement pensions

From 1 July 2017, a limit of $1.6 million per person will apply to super pensions which are not transition to retirement pensions. For pensions in place before 1 July 2017, action may need to be taken to reduce the total value in pensions to at most $1.6 million by 30 June 2017. After 1 July 2017, this limit will apply to amounts used to start income streams.

Please note these rules do not apply to earnings, either positive or negative. This means you do not have to withdraw amounts above the threshold if your pension grows, but also limits your ability to top up a pension if your value drops due to performance or pension withdrawals.

The $1.6 million cap will also apply to super income streams such as term allocated pensions, annuities and defined benefits, however, there are special rules to calculate the value of these non-account based income streams.

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