Aon Master Trust

Budget tax changes 1 July 2017

Inside

The super changes from last year's Federal Budget come in on 1 July 2017. This is the biggest super shake-up in 10 years and it may affect you.

The major changes are to:

- how much you can put into your super – it will be a lot less from 1 July
- tax on contributions and access to tax offsets and deductions – some winners, some losers
- pensions – a limit on how much super you can put into a pension and there's a new tax on some pensions.

Before-tax contributions

- A big drop in how much you can put in
- An increase in the number of high-income earners required to pay double contributions tax
- Low-income earners' tax offset
- Catch-up opportunity

After-tax contributions

- A big drop in how much you can put in
- No contributions allowed if your total super balance is $1.6 million or more
- Tax deductible contributions for everyone
- More couples able to claim a tax offset for spouse contributions

Pensions

- New tax on transition-to-retirement pensions
- Super to pension: transfer balance cap of $1.6 million

Before-tax contributions

A big drop in how much you can put in

From 1 July 2017, the amount of before-tax money that can go into your super in a financial year will drop to $25,000 (this is known as the concessional cap) regardless of your age. The current cap is $35,000 if you're 50 or over, and $30,000 if you're under 50.

(What counts towards the concessional cap? See page 3.)

Want to get in before the contribution caps go down?

There's still time to make the most of this year's higher caps. See our *Contributions* factsheet for more info and how to make contributions.

An increase in the number of high-income earners required to pay double contributions tax

Before-tax contributions are taxed at 15% on their way into super. An additional 15% tax applies to people whose income plus their before-tax contributions is more than a certain amount each financial year. That amount is $300,000 now but will reduce to $250,000 from 1 July 2017. This reduction will result in more people being taxed at 30% on before-tax contributions that have taken them above the threshold.

Low-income earners' tax offset

If you earn less than $37,000 a year, you will qualify for a Government refund of up to $500 on the 15% tax paid on before-tax contributions to your super. You will receive the refund as a Government contribution to your super. Known as the low income superannuation tax offset, it will replace the current low income superannuation contribution from 1 July 2017.

Catch-up opportunity

Under current rules, you lose any part of the annual cap that you don't use. This will change from 1 July 2018 if your 'total super balance' is less than $500,000. You will be able to carry forward any unused part of your annual $25,000 concessional cap for up to five years and use it to make catch-up contributions. Your first carry-forward amounts will be from the 2018/19 financial year and you can make your first catch-up contributions in 2019/20.

Total super balance

includes money you have in super accounts, transition-to-retirement pension accounts, and retirement pension accounts.

After-tax contributions

A big drop in how much you can put in

This is an important change if you're planning to boost your super with after-tax contributions. From 1 July 2017, the most that you'll be able to put in each year (the non-concessional cap) will drop to $100,000—much lower than the current $180,000.

If you're under 65, you can bring forward two years' worth of caps into the current financial year. This would allow you to put in up to $540,000 (3 x $180,000) this financial year. Next financial year, this will drop to $300,000 (3 x $100,000). If you triggered a bring-forward before 1 July 2017, any unused part of your cap will reduce from 1 July 2017.

(What counts towards the non-concessional cap? See page 3.)

No contributions allowed if your total super balance is $1.6 million or more

From 1 July 2017, if your 'total super balance' is $1.6 million or more, you won't be allowed to make any further non-concessional contributions to your super.

Tax deductible contributions for everyone

Currently, the only people who can claim a tax deduction on their after-tax contributions are substantially self-employed people. This rule is about to end. From 1 July 2017, everyone under age 75 (including those aged 65 to 74 who meet the work test*) will be able to claim a tax deduction on after-tax contributions. Those contributions will be taxed at up to15% and will count towards the $25,000 annual concessional cap. Note: if you plan on claiming a tax deduction, you will need to give us notice of your intention before you lodge your income tax return.

This measure allows employees whose employer does not allow salary sacrifice contributions and workers who don't meet the substantially self-employed test to access concessionally taxed contributions.

* This test requires you to have worked at least 40 hours over a 30-day period in the financial year you make the contributions.

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More couples able to claim a tax offset for spouse contributions

People with a spouse whose income is below a certain threshold receive a tax offset for after-tax contributions they make to their spouse's super. The current income threshold of $10,800 a year will rise to $37,000 from 1 July 2017.

The tax offset amount will be calculated in the same way as now ie 18 cents for each $1 contributed. The maximum offset of $540 for contributions of $3,000 or more reduces for incomes above the threshold and cuts out where income is above $40,000 a year.

Note: there's no tax offset if your spouse's 'total super balance' is $1.6 million or more or if your spouse has exceeded their non-concessional cap in the financial year.

Pensions

New tax on transition-to-retirement pensions

Investment earnings on assets in transition-to-retirement pension (TRP) income accounts are currently tax free. From 1 July 2017 they will be taxed at up to 15% (the same as in super) regardless of when the TRP account was opened.

Income payments from TRPs will continue to be tax free for people aged 60 or over.

Super to pension: transfer balance cap of $1.6 million

There is currently no limit on the total amount of super that can move to, or sit in, a tax-free retirement pension account. This will change from 1 July 2017 with the introduction of a $1.6 million 'transfer balance cap'. How this affects you will depend on whether you already have a pension or are planning to set one up.

- If you already have more than $1.6 million in retirement pensions, you will need to either withdraw the excess or transfer it back into super.
- If you are planning to set up a retirement pension after the new cap comes in, you will be able to convert up to $1.6 million of your super into your pension. The balance must stay in super or you can withdraw it.

Generally, you will need to comply with the new cap by 1 July 2017. However, if your balance is between $1.6 and $1.7 million on 30 June 2017, you will have until 31 December 2017 to bring your balance below the cap.

If you exceed the cap, earnings on the excess amount will be subject to tax. If you fail to bring your balance below the cap, the Australian Taxation Office can instruct your fund to remove the excess from your pension account. Your fund may roll it back into super or pay it to you.

Note: the transfer balance cap will not apply to transition-to-retirement pensions as they will no longer be completely tax free from 1 July 2017.

What counts towards the contributions caps?

Contributions are amounts that employers and individuals pay into super. They are categorised as either concessional or non-concessional contributions and count towards the relevant cap.

The following contributions count towards the concessional contributions cap:

- Employer contributions, which include:
  - Superannuation Guarantee (SG) contributions
  - contributions an employer may have to make under an industrial award or certified agreement
  - voluntary contributions that an employer may choose to make in addition to the above
  - contributions that an employer may make to pay for fees or insurance premiums on your behalf.
- Salary sacrifice contributions (contributions you make from your before-tax pay).
- After-tax contributions you make and for which you intend to claim a tax deduction.

The following contributions count towards the non-concessional contributions cap:

- Contributions you make from your after-tax pay.
- Contributions you make to your spouse's super.
- Government co-contributions.

Need some advice?

These issues are complex so we recommend that you speak with your financial adviser about the options available to you.

If you don't have an adviser, call us on 1300 880 588 or email us at contactaon@pillar.com.au to ask us about the advice services you can access through the Aon Master Trust.

Contact us

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