EDITION 2 – 2017

meritum news

EXCELLENCE IS NOT A SKILL. IT IS AN ATTITUDE ~ Ralph Marston

WELCOME to *Meritum News*.

In this edition we look at the Federal Government's latest superannuation reforms and how these changes could impact you.

If you'd like more information on anything in this newsletter, please contact one of our experienced and professional advisers.

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Review your plans and stay on track

The Federal Government's superannuation reforms will leave most people in a neutral – or even positive – position.

It's worth understanding the latest super changes and how they could impact your current super contribution strategy. And there's a chance you may want to make some amendments– *before* the new financial year.

Pre-tax opportunities

One reason for this is that as of 1 July 2017, the annual cap for concessional (pre-tax) super contributions will reduce to $25,000 per annum. In the current financial year, the concessional contributions are capped at $35,000 pa – if you are 49 years of age or older – and $30,000 pa for anyone else.

From 1 July 2017, concessional contributions will attract an additional 15% tax if your income[1] is greater than $250,000 pa as opposed to the income threshold of $300,000 pa that applies in the current financial year.

Both these changes mean you might want to take advantage of the higher cap by June 30 this year, if your cashflow allows.[2]

Delayed benefits

If it's not a great time to make additional contributions to super, there may be another option available to you in the years ahead. From 1 July 2018, if you don't use up your annual concessional contribution cap, you'll be able to accrue the unused amounts for use in subsequent years. If your total super balance (accumulation and pension) is less than $500,000, unused amounts may be carried forward on a five-year rolling basis with 2019/20 being the first financial year. That's a great new opportunity for those who have broken work patterns or competing financial commitments.

It may also help to manage your tax or put more money into your super when selling assets that result in a capital gain.

After-tax opportunities

The cap on non-concessional (after-tax) contributions will be reduced next financial year as well. From 1 July 2017, the cap for non-concessional contributions will reduce from $180,000 pa to $100,000 pa – or from $540,000 to $300,000 if you bring forward two years' worth of contributions[2] (certain eligibility conditions apply).

Again, this means you may be able to take advantage of the higher cap and maximise your non-concessional contributions by June 30.[2]

Hold that thought

There are other good reasons to act sooner rather than later. The super reforms impact transition to retirement (TTR) pensions as well – and the role they can play in your pre-retirement planning.

TTR pensions are those pensions that have been started with super money when you have reached your preservation age[3] and haven't committed to retirement. As of 1 July, the tax paid on earnings from investments held in these pensions will increase from 0% to a maximum of 15%. This change – together with the reduced annual cap on concessionally taxed super contributions – makes it important to review your strategy to see whether it's still suitable or not.

Concessional contributions

Annual before-tax contribution caps

Now	From 1 July 2017	From 1 July 2018
$30,000 age 48 or under†	$25,000 for everyone	$25,000
$35,000 age 49 and over†		There is an opportunity to contribute more than the annual cap if you haven't fully utilised the cap in previous years and your super balance is $500,000 or less. Cap amounts unused from 1 July 2018 can be carried forward for up to five consecutive years.

Everyone who is eligible to make personal super contributions will be able to claim a tax deduction for these contributions to eligible super accounts, up to the concessional contribution cap.

Tax on concessional contributions made within the cap

If your income is‡

	Now	From 1 July 2017
≤$250,000	15%	15%
$250,000 to $300,000	15%	30%
$300,000+	30%	30%

* Legislated on 29 November 2016.

† As at 30 June of previous financial year.

‡ Income for these purposes is determined according to the Tax Law.

A $1.6 million limit

From 1 July 2017, a 'transfer balance' cap of $1.6 million will be introduced limiting the amount you can hold in the retirement (pension) phase of super.[4] That doesn't mean your excess funds have to be withdrawn from the super system altogether.

Rather, the amount in excess of $1.6 million can remain in the 'accumulation' phase where earnings are taxed at up to 15% – or, in reality, a lot lower once deductible expenses, franking credits and other items are taken into account in the fund.

If you think you may be impacted by this measure, you should seek financial advice before 30 June. By doing so, not only will you avoid a significant tax penalty, you may potentially benefit from capital gains tax relief.

Non-concessional contributions

Annual after-tax contribution caps

Now	From 1 July 2017
$180,000 pa	$100,000 pa*
or	or
$540,000	$300,000*
over a three year period if certain conditions are met	over a three year period if certain conditions are met

Transitional rules will apply for contributions made between now and the 2018/19 financial year. These rules are complex and it's recommended that you speak to a financial adviser or call us today on **132 652** between 8 am and 6 pm AEST, Monday to Friday.

Spouse contributions

Now	From 1 July 2017
Tax offset for spouse contributions only where recipient income† is less than	Tax offset for spouse contributions only where recipient income† is less than
$13,800	$40,000

* After-tax contributions cannot be made where super balance exceeds $1.6m.

† Assessable income plus reportable fringe benefits and reportable employer super contributions.

Sometimes it's worth waiting

That's because the new super reforms will allow more people to access the spouse contributions tax offset from 1 July 2017. Currently, a tax offset of up to $540 is available to those who contribute to their spouse's super when their spouse's income[5] is less than $13,800 pa. That's set to change. From 1 July 2017, the spouse contribution tax offset will be available when their spouse's income is less than $40,000 a year.

Earnings tax in the accumulation accounts

Remains the same at 15% (10% on capital gains‡)

Transition to retirement pension

A transition to retirement (TTR) pension allows you to reduce your working hours but not your lifestyle by using TTR pension payments to supplement your income.

Earnings tax rates

Now	From 1 July 2017
	

‡ Where eligible for the capital gains tax discount.

For many of us, little has changed

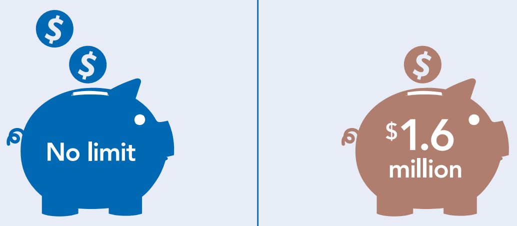
The new reforms will continue to offer ample opportunities to grow your super and retire with more. Indeed, for many of us, little has changed. While we build up our super, pre-tax contributions and investment earnings will still be taxed at the low rate of 15% for most people, not the marginal tax rate of up to 49%[6]. An additional 15% tax may apply to concessional contributions made by high income earners. However, this may still be lower than their marginal tax rate. When we retire, we can transfer a generous amount into a superannuation pension, where no tax is paid on investment earnings and payments are generally tax free at age 60 and over. At the end of the day, super is still super.

Nevertheless, you need to be aware of the upcoming changes. It's important to review your current super contribution strategy to assess the impact of these reforms and any amendments that may be required. At the same time, care should be taken to avoid contributing in excess of the contribution caps. A tax penalty is still a tax penalty!

Super pension limits

(Limit amount transferred to tax-free pension accounts)

Now	From 1 July 2017
No limit	$1.6 million lifetime cap applies to everyone



lifetime cap
applies to everyone

People with existing pensions over $1.6 million will need to **reduce their total pension balance** to or below this limit by **1 July 2017** to avoid penalties

Any amount exceeding $1.6 million can be **held in an accumulation account**

1 Taxable income, reportable fringe benefits, total net investment losses and low tax contributions (also known as concessional contributions).

2 It's important to ensure that concessional and non-concessional contributions are made within the caps. Exceeding the cap may result in significant tax penalties.

3 Preservation age is currently age 56 and will gradually increase to age 60 depending on your date of birth. Further information is available at www.ato.gov.au

4 The limit applies per person. That means it is possible for up to $3.2 million to be transferred to pensions by a couple.

5 Assessable income, reportable fringe benefits and reportable employer super contributions.

6 Including Medicare Levy and Temporary Budget Repair Levy.

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