



# **AIA SMSF Budget Update**

*August 2016*

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# Federal Budget 2016

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# Small Business Taxation Changes

1 July 2016

**Company tax rate for small business lowered to 27.5%**

**Progressively extended to companies with higher turnover**

Tax year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Turn over	\$2m	\$10m	\$25m	\$50m	\$100m	\$250m	\$500m	\$1b

- Company tax rate to 25% for all companies by 2026/27

# Superannuation Contribution Caps

- Concessional contributions reduced

1 July 2017

Age on 30/6 previous fin year	2015/16	2016/17	2017/18
48 or under	\$30,000	\$30,000	\$25,000
49 or over	\$35,000	\$35,000	\$25,000

- Concessional contributions reduced:
  - Utilise cap for 2015/16 and 2016/17 if have capacity
  - Review contribution strategy
  - Review TTR strategy
  - Catch up regime

# Catch-up Concessional Contributions

- Concessional contributions above cap:
  - Cap not fully utilised in previous financial years
  - Rolling 5 year period
  - Limited to individuals with super balance of less than \$500,000

**1 July 2017**

Year	Cap available^	CC made	Unused amount
2017/18	\$25,000	\$20,000	\$5,000
2018/19	\$30,000	\$10,000	\$20,000
2019/20	\$45,000	\$30,000	\$15,000
2020/21	\$40,000	Nil	\$40,000
2021/22	\$65,000	\$20,000	\$45,000

^ Ignores indexation of concessional contribution cap

# Catch-up Concessional Contributions Cont...

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- Limited to certain individuals
  - May assist those with broken work patterns
- Utilise if have financial capacity
- Timing of contributions to years with higher income:
  - Realise capital gains
  - Higher distributions from investment structures
- Interaction with removal of work test

# Division 293 Tax

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- Division 293 threshold to reduce to \$250,000

**1 July 2017**

- Extended to defined benefit schemes and constitutionally protected funds (limited exceptions)
- Tax levied on individual:
  - Limited scope to reduce liability
  - Manage expectations

# Interaction of Div. 293 and Lower Cap

Concessional contribution	Contributions tax	Account balance at end of 10 years
\$30,000	30%	\$299,105
\$25,000	30%	\$249,254

Current contribution \$30,000; cap reduces to \$25,000

Income above \$300,000 Div. 293 currently **does** apply

Difference		\$49,851
Option	NCC \$3,775 pa	Gross salary required \$7,122



Able to make NCCs (lifetime cap not reached)

Assumption: 10 years period; cap not indexed; net earnings 4.25%



# Interaction of Div. 293 and Lower Cap Cont...

Concessional contribution	Contributions tax	Account balance at end of 10 years
\$30,000	15%	\$363,199
\$25,000	30%	\$249,254

**Current contribution \$30,000; cap reduces to \$25,000**

**Income less than \$300,000 Div. 293 currently does not apply**

Difference		\$113,945
Option	NCC \$8,628 pa	Gross salary required \$16,279



Able to make NCCs (lifetime cap not reached)

Assumption: 10 years period; cap not indexed; net earnings 4.25%

# Removal of Work Test

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## **Abolish work test for 65 – 74**

Currently 40 hours in 30 days

**1 July 2017**

## **Spouse contributions**

Extended to age 74

No work test required

## **Still only mandated employer contributions from 75**

# Removal of Work Test Cont...

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1 July 2017

**Greater opportunity to make contributions for older clients:**

- Watch lifetime NCC cap

**Contributions under CGT cap for those 65 – 74 easier:**

- Time lag between sale and proceeds

# Personal Deductible Contributions

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**All individuals under 75 can claim deduction**

**1 July 2017**

**Care with lower concessional cap of \$25,000**

**Process to claim deduction unchanged:**

- Lodged notice of intent within timeframes
- Acknowledgement from trustee
- Certain event limited or deny deduction

# Pension Transfer Balance Cap

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## **\$1.6 mill lifetime 'transfer cap balance':**

- Limits amount that can be used to commence pension during lifetime
- Earnings taxed at 0%

**1 July 2017**

## **Excess amounts remain in accumulation phase:**

- Earnings taxed at 15%

## **Action:**

- Amounts in pension phase above \$1.6 mill to be reduced by 1 July 2017
- No grandfathering

**Treatment of CGT cap, personal injury, death benefit and invalidity?**

# Transition to Retirement

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## Transition to retirement strategy impacted

1 July 2017

- Review TTR strategies with impacts of:
  - Tax on earnings increases to 15%
  - Impact of lower concessional contribution cap
  - Impact of balance transfer

**Is there value left in the strategy?**

# Value of Transition to Retirement

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## Taxable

Marginal tax rate	\$1,000 salary net income	\$1,000 salary sacrifice Net contribution	Pension to replace net salary	Benefit
34.5%	\$655	\$850	\$814	\$36
39%	\$610	\$850	\$803	\$47
47%	\$530	\$850	\$779	\$71

## Tax Free Pension

Marginal tax rate	\$1,000 salary net income	\$1,000 salary sacrifice Net contribution	Pension to replace net salary	Benefit
34.5%	\$655	\$850	\$655	\$195
39%	\$610	\$850	\$610	\$240
47%	\$530	\$850	\$530	\$320

# Lump Sum Pension Payments

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**Strategy to elect pension payments to be treated as lump sum abolished**

**1 July 2017**

**Private binding ruling issued in December 2015:**

- ATO indicated it would provide general response on strategy

Strategy no longer valid from 1 July 2017



# Non-Concessional Contributions

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**Current cap and bring forward rule abolished**

**Lifetime NCC cap of \$500,000:**

- Includes NCCs made since 1 July 2007
- Decouples NCC as multiple of CC
- Does not include small business CGT and personal injury amounts

**Budget  
Announcement  
3 May 2016**

**Continued penalty regime if breach cap:**

- Expect associated earnings included
- Unknown is interaction if excess CC which are not refunded

# Non-Concessional Contributions Cont...

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**Time to rethink re-contribution strategy**

**Budget  
Announcement  
3 May 2016**

**Revisit and review unimplemented advice:**

- Additional NCC if likely to have already reached lifetime cap
- Implementation of re-contribution strategy



# Anti-Detriment

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- Anti-detriment abolished
- Taxation of death benefits unchanged
- Consistency for all funds:
  - Voluntary payment
  - SMSFs generally unable to pay
- Removes re-contribution vs anti-detriment strategy:
  - But \$500k NCC cap constrains
  - Age 75 now the age limit

1 July 2017



# Anything Unchanged?

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- Taxation of pension payments remain tax-free:
  - Indirectly limited on the amount that can be in income streams
- Ability to remain in superannuation:
  - Only compulsory cashing condition is death
- Superannuation still remain tax effective vehicle:
  - 15% vs MTR
  - May consider alternatives due to limited ability to contribute



# Legislative Process

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**Treasury consults with stakeholders - usually in confidence - after election**

**Treasury open formal consultation on draft legislation - later this year**

**Bills in Parliament - maybe late 2016 - possibly Autumn sitting 2017?**

**Passed (amended?) Autumn sitting 2017?**