



SUPER CHANGES 2017

Maximising
Non-concessional
Contributions

For most Australians, superannuation remains one of the best wealth accumulation structures from a tax perspective. Superannuation in the accumulation phase pays maximum tax of 15% on investment income, and no tax on earnings that support pension payments being made to fund members.

A number of changes are being made to superannuation from 1 July 2017 that will impact how people can maximise their super and take advantage of the tax concessions available. These include changes to the non-concessional cap and eligibility.



Non-concessional contribution cap

What are superannuation non-concessional contributions?

Non-concessional contributions to superannuation are generally sourced from 'after tax' income or savings. That is, money that has been saved from income that has been subject to income tax.

However, non-concessional contributions may be funded from a variety of sources including:



Savings



Proceeds of the
sale of assets or
investments



Inheritances
and windfalls



Gifts



Proceeds from
downsizing the
family home

Note

They can also be sourced from existing superannuation benefits that have been withdrawn and then recontributed as non-concessional contributions (see below section on re-contribution strategy).

Even though the superannuation system may offer significant tax advantages, taxation is just one of the matters to be considered when making an investment decision.

Non-concessional contribution changes

What changes will occur from 1 July 2017?

There will be a \$100,000 annual cap on non-concessional contributions. Currently, non-concessional contributions are capped at a maximum of \$180,000 per person, per financial year.

- Anyone aged 64 (or younger) on 1 July 2016 may bring forward up to three years' contributions, thereby contributing up to \$540,000 for the three years. This will reduce to \$300,000 from 1 July 2017. Special transition arrangements may apply in this situation.
- Also, from 1 July 2017 only people with less than \$1.6m in super will be allowed to make non-concessional contributions. This will be based on their total superannuation balances from all funds, as at the previous 30 June.

Note

The ability to bring forward up to three years contributions (i.e. up to \$100,000) will also continue however, some restrictions may apply to people with more than \$1.4m in super.

Advice Tip

Given the above changes, it may be worth maximising non-concessional contributions prior to 1 July 2017.

Non-concessional contributions are not subject to any tax when contributed to a superannuation fund and form part of an individual's tax-free component of their superannuation. Increasing the tax-free component may be beneficial where an individual seeks to access their benefit before turning 60 years of age, or where a deceased person's superannuation passes to a beneficiary who is not a tax dependant (including adult children).

Re-contribution strategy

What benefit is there in a re-contribution strategy?

A re-contribution strategy involves the withdrawal of superannuation benefits and the re-contribution of those benefits as a non-concessional contribution. Pursuing a re-contribution strategy may be advantageous where an individual wishes to convert the taxable component of their superannuation savings, to a tax-free component, particularly for estate planning purposes.

Note

Preserved superannuation benefits may only be withdrawn when someone has met a condition of release such as having retired after reaching preservation age, when they are under the age of 65.

Where an individual is aged between 65 and 74, they will need to meet the 'work test' of being gainfully employed or self-employed for at least 40 hours during a consecutive 30-day in the financial year in which they wish to contribute. Also, unless they were aged 64 at the start of the financial year in which they intend to contribute, they are unable to access the three year bring forward provision.

Spouse contributions

Under what circumstances it is appropriate to make the re-contribution in favour of an individual's spouse?

The advantages of recontributing to a spouse may include reweighting a couple's super savings to maximise their super under the new \$1.6 million limits or to maximise their access to the age pension.

Note

Care needs to be exercised when transferring superannuation to a younger spouse as non-concessional contributions are preserved. That is, they cannot be accessed from superannuation until the individual has met a condition of release. This is of particular importance where there is a significant age difference between spouses.

Advice Tip

Depending on individual circumstances, recontributing to superannuation for a younger spouse may provide access to the government co-contributions. Alternatively, where one partner makes a non-concessional contribution for their low-income earning spouse, the contributing spouse may have an entitlement to a 'spouse superannuation tax offset'.

If you would like to discuss any of the changes to superannuation please contact your financial adviser. The changes are complex and you should seek advice regarding your personal circumstances and plans before making any decisions.

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