WELCOME

LEANNE CONNOR - WGC BUSINESS ADVISORS

BEYOND THE 2016 SUPER CHANGES

22 February 2017

Session Overview

- History of Superannuation
- Objectives of Superannuation
- Overview of 2016 Legislative Changes
  - Changes to Contributions (tax issues)
  - Changes to NCC Contribution Limits
  - Changes to Pensions
  - Capital Gains Tax Relief & Tax Free %
  - Estate Planning Considerations
- Accountants' Licensing Regime
- Questions

History of the Taxation of Super

Pre 1983
0% on contributions & earnings
Lump Sum = 5% at marginal tax rates
Income stream = marginal tax rates (MTRs)

1983-88
0% on contributions & earnings
Lump Sum = 15% to $50k (indexed) then 30%
Income stream = MTRs

1988-07
15% on contributions (+surcharge) & earnings
Lump Sum = 0% to $135,590
15% > $135,590 to RBL
Income stream = MTRs less 15% rebate

Post 2007
15% on contributions & earnings
Lump Sum = 0% for over 60s
Income stream = 0% for over 60s

Objectives of Superannuation

Sustainable
Targeting tax concessions where they're needed most

Flexible
Adjusting the settings for modern work patterns

Integrity
A system that meets its core purpose and objective

The objective of superannuation is
'to provide income in retirement to substitute or supplement the Age Pension'.

http://www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement/Superannuation-Reforms

Objectives of Super

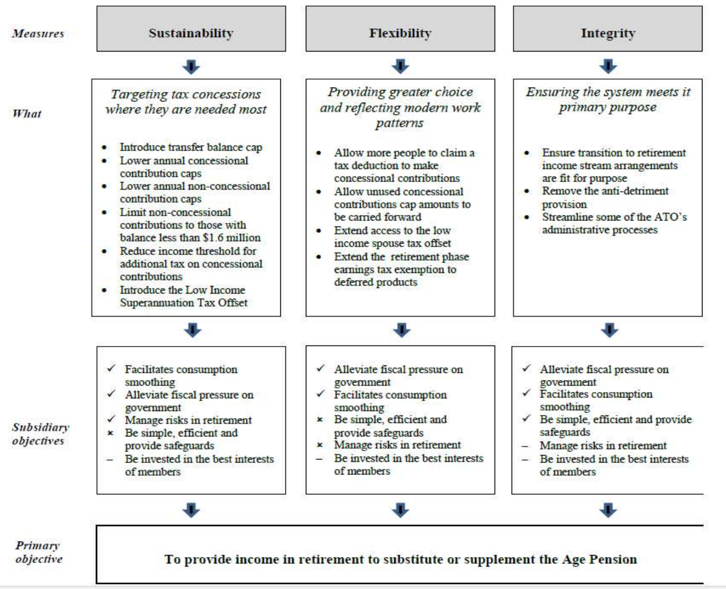
Subsidiary Objectives of Superannuation

1. Facilitate consumption smoothing over the course of an individual's life;
2. Manage risks in retirement;
3. Be invested in the interests of superannuation fund members;
4. Alleviate fiscal pressures on government from the retirement income system; and
5. Be simple, efficient and provide safeguards.

Comments on Super Objective

DO YOU AGREE WITH THE SUPERANNUATION OBJECTIVE?

- Does it endorse the 3 pillars of our retirement savings plan -Aged Pension, Compulsory & Voluntary savings?
- Will future changes now be predictable with no surprises or is there no shield against Government tinkering?
- Does it address longevity risk or costs of Health and Aged Care?
- Should the system support a “comfortable lifestyle”?
- Is the proposed purpose setting the bar too low?



How the new law measures up against the proposed Superannuation Objective

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Overview of the 2016 Legislative Changes

- Reduction in concessional contribution caps
- Increased contributions tax for high income earners
- Reduction/limitation in non-concessional contribution caps
- Reduction in tax concessions attributed to pension income in excess of a threshold
- Preferential tax treatment for alternate retirement income products - e.g. deferred lifetime annuities

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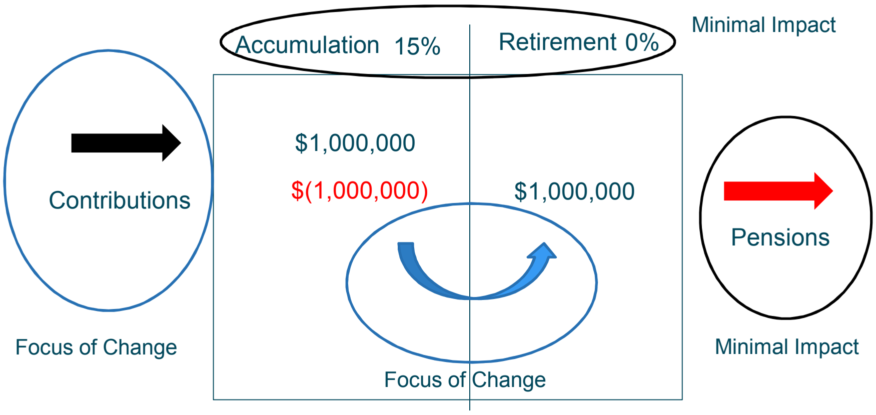
Worked example of Super Changes



Changes to Contributions

(Tax issues) - from 1 July 2017

- **Decrease in the Concessional Contributions Cap to $25,000 starting 1 July 2017 - reduced from $35,000 > 49 years or $30,000 for < 49 years**

Maximise Concessional Contributions before 30/6/17 & remember June 2017 SGC super is often paid in July 2017

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Concessional Contributions

Concessional

$30,000/
$35,000

2017 → $35,000

$25,000

2018 → $25,000

Accumulation 15%	Retirement 0%
$35,000	
$25,000	

Changes to Contributions

(Tax issues) - from 1 July 2017

- **Individuals with adjusted taxable income > $250,000 will be taxed an additional 15% on superannuation contributions from 1 July 2017 - reduced from $300,000 (Div. 293 tax)**

If possible, tax plan to reduce an individual's adjusted taxable income to below $250,000 - post 1 July 2017

Changes to Contributions
(Tax issues) - from 1 July 2017

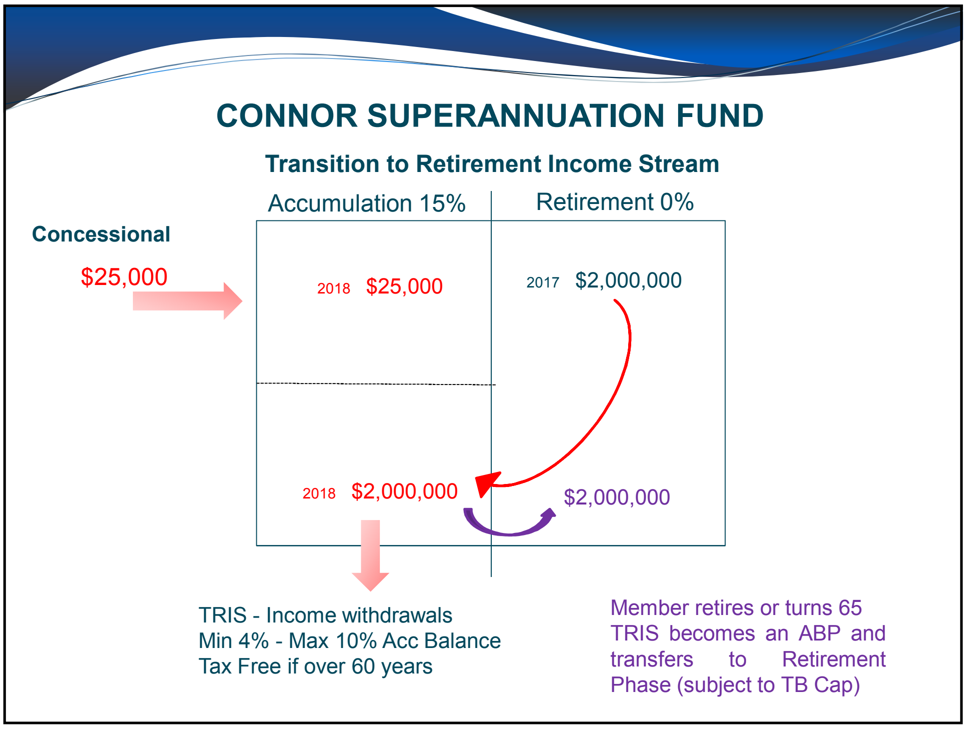
- Removal of the "10% Employment" Test - allows all individuals under 75 to claim Personal Superannuation Contributions, regardless of employment arrangements

Good news for part-time workers from 1 July 2017

Changes to Contributions
(Tax issues) - from 1 July 2017

- Transition to Retirement Income Streams (TRIS) will no longer receive tax exempt status on earnings from 1 July 2017

TRIS can still be worthwhile for 2017 - especially if the member requires the income stream
- re-assess for 2018 year and beyond
(if only drawing a TRIS to attract 0% tax on earnings in the Fund)



Changes to Contributions

(Tax issues) - from 1 July 2018

- **Members with account balances less than $500,000 at 30 June of the previous year can carry forward their unused contribution caps for a period of up to 5 years - effectively applies from 2019-20**
  - **Members can plan to make up to $125,000 in deductible Contributions in one year.**
  - **Manage account balances by utilising reserves or spouse contribution splitting**
- **Members can split up to 85% of their previous year's deductible contributions with their spouse - the contribution is measured against the member's cap only**

Changes to contributions (NCCs) - from 1 July 2017

- **Existing Non-concessional Contribution Cap (NCC) reduces from $180,000 per year to $100,000 or $300,000 over a 3 year period (if under 65)**
- **No further NCC's if their total account balances are > $1.6M at 30 June of the previous year**

Maximise NCC's & bring-forward opportunities before 1 July 2017 - especially if you have an account balance > $1.6M

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Non-Concessional Contributions

Concessional

~~$30,000/ $35,000~~

2017

$25,000

2018

Non-Concessional

$180,000

2017

$100,000

2018

Accumulation 15%	Retirement 0%
$35,000	2017 $2,000,000
$25,000	
$180,000	
$100,000	

If member's balance >$1.6M – no further NCC's from 1/7/2017

Changes to Contributions (NCCs) - from 1 July 2017

Members need to fully utilise the current $540,000 NCC bring forward limit by 30 June 2017 or will be subject to the new $100,000 p.a. limit after 1 July 2017 (transitional pro-rata 3 year limit applies)

	Bring forward triggered in 2015/16	2016/17
Annual NCC cap:		
2015/16	$180,000	N/a
2016/17	$180,000	$180,000
2017/18	$100,000	$100,000
2018/19	N/a	$100,000
Total NCC able to be made	$460,000 (between 1 July 2015 and 30 June 2018)	$380,000 (between 1 July 2016 and 30 June 2019)

- The full 3 year bring forward limit is not available if a member's balance is > $1.4M in the first year (or after the year they turn 65)

Changes to Pensions - from 1 July 2017

- Limits the total amount of assets a taxpayer can move into pension phase to $1.6M (indexed) - known as the transfer balance cap
- Existing total pension balances in excess of $1.6M as at 1 July 2017 will need to be rolled back to accumulation phase or paid out of the Fund

Member's will need to act to reduce existing pension balances to below $1.6M by 30 June 2017

- Breaches of the transfer balance cap will result in the excess being rolled back and the member taxed at 15% on a notional earnings figure (30% for 2nd offence) - earnings rate equals the 90 day bank bill rate + 7%

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Transfer Balance Cap - move into retirement phase post 1/7/2017

Accumulation 15%

Retirement 0%

1/7/2017
$2,000,000

$400,000

Up to
$1,600,000

Minimum pension = % of retirement phase account
4% of $1.6M

Lump Sum = Tax Free if over 60

Pension = Tax Free if over 60

CONNOR SUPERANNUATION FUND

Transfer Balance Cap - existing pensions > $1.6M at 30 June 2017

Accumulation 15%

Retirement 0%

2017 $2,000,000

From 1/07/2017

$400,000

$1,600,000

OR

$1,600,000

$400,000

Minimum pension = % of retirement phase account
4% of $1.6M

Lump Sum = Tax Free if over 60

Pension = Tax Free if over 60

Once a balance is transferred into retirement phase (or re-set at 30 June 2017), there is no further monitoring of the retirement phase balance

Changes to Pensions
from 1 July 2017

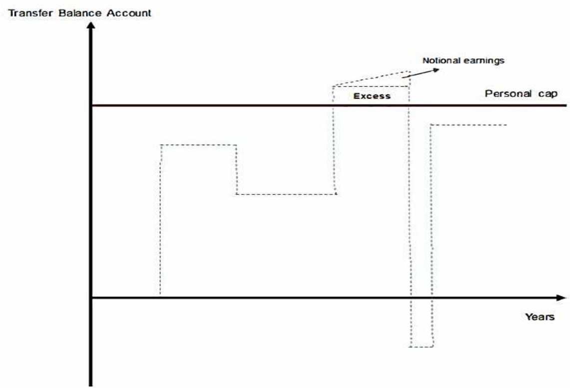
TRANSFER BALANCE CAP ACCOUNT

DEBIT			CREDIT			
30/06/19	Accumulation	$200,000	01/07/17	New Pension	$800,000	50%
30/06/21	to New Fund	$2,000,000	01/07/18	New Pension	$400,000	75%
			01/07/20	New Pension	$600,000	100%
			30/06/21	New Fund rollover	$2,000,000	

		Transaction	Accum Cap Balance
1.	New Pension	800,000	800,000
2.	New Pension	400,000	1,200,000
3.	Roll Back to Accum	(200,000)	1,000,000
4.	New Pension	600,000	1,600,000
5.	Tfr to New Fund	(2,000,000)	(400,000)
6.	New Fund	2,000,000	1,600,000

Changes to Pensions
- from 1 July 2017

- **You keep track of your transfer balance cap by way of a system of debits and credits**



Changes to Pensions
from 1 July 2017

Debits to your transfer balance account include:

- Rolling over into another super product
- Account splits due to Family Law disputes
- Structured payment receipts (ie personal injury)
- Instances or fraud, bankruptcy or void transactions

A major omission to this list is insurance payouts in the Fund and what happens if there is another GFC?

Changes to Pensions
- from 1 July 2017

- The $1.6M cap will be indexed but only for those that have not used 100% of their cap at any time
  - If you have transferred $800,000 into retirement phase (i.e. 50% of the TB cap) - then you get 50% of the next indexation uplift)

Changes to Pensions
- from 1 July 2017

- Some current pensions can not be rolled back into accumulation phase. The rules provide for a mechanism to value the income stream and measure the value against the $1.6M cap (capped defined benefit balance)
  - Defined Benefit Funds and Lifetime & Life Expectancy Pensions & Annuities
    - First months pension x 12 (mths) x 16 (factor)
      i.e. $10,000 x 12 x 16 = $1,920,000 - credit to TB account
  - Market Linked Pensions & Annuities
    - Annual entitlement x remaining years (rounded up)
      i.e. $150,000 x 8 years = $1,200,000 - credit to TB account

A member will not breach the $1.6M TB cap solely because of a defined benefit income stream - but any other non defined benefit pension/s must be rolled back or paid out of the Fund to avoid a breach of the TB cap rules.

Changes to Pensions
- from 1 July 2017

- The special value calculated is divided by 16 and measured against the TB cap
  - To the extent a taxed or tax-free defined benefit income exceeds the defined benefit cap, 50% of the amount is included in the individual's assessable income

Example:-

$3,000,000 value/16 (factor)	=	187,500	(defined benefit income stream)
$1,600,000 TB Cap/16 (factor)	=	(100,000)	(defined benefit income cap)
		$ 87,500	**

** 50% of the excess is assessable in the individual's tax return

For completeness, if the pension is from an untaxed source, any excess will not be subject to the existing 10% tax offset.

Regulations are being amended to allow a Fund to roll back the value of these pensions that expect to breach the TB cap rules - thus avoiding the above tax being imposed on the income stream at the individual level.

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Comments on Pension Changes

CAPITAL GAINS TAX RELIEF

- **Members forced to roll back some of their assets into accumulation phase can elect to trigger a deemed CGT event and effectively reset the asset's cost base and minimise CGT on the eventual sale** - **need to hold for 12 mths to get 50% CGT general discount**

Election is on an asset by asset basis

- **using the best value between 9 Nov 2016 and 30 Jun 2017 for 100% Segregated Fund (including 100% pension mode Funds),**
- **using the 30 Jun 2017 value for Unsegregated Fund**

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Capital Gains Tax Relief

Accumulation 15% | Retirement 0%

2017 $2,000,000 100%

Incl. $200,000 unrealised gains

From 1/07/2017

20% $400,000 | $1,600,000 80%

100% Retirement Phase at 9 Nov 2016 = Segregated Fund

1. If assets were sold by 30/6/2017 = $200,000 gain would be tax free
2. Can select a market value of any asset between 9 Nov 2016 to 30 Jun 2017 to be the cost base post 1 July 2017 = 100% tax free
3. Gains accrued from the 1/7/2017 cost base will be taxable at the current actuary % (say 20%) on disposal - 10% tax rate (if held for more than 12 months)

CONNOR SUPERANNUATION FUND

Capital Gains Tax Relief

	Accumulation 15%	Retirement 0%	
20%	2017 $500,000	2017 $2,000,000 Incl. $200,000 unrealised gains	80%
		From 1/07/2017	
36%	$900,000	$1,600,000	64%

Part Retirement Phase at 9 Nov 2016 = Unsegregated Fund

1. If assets were sold by 30/6/17 = $200,000 gain would be 80% tax free but if sold post 30/6/17 would only be 64% tax free
2. Can select a 30/6/17 market value for any asset to be the cost base post 1 July 2017 = tax on the notional gain (say 20% of the $200,000) can be deferred until disposal of the asset
3. Gains accrued from the 1/7/2017 cost base will be taxable at the current actuary % (say 36%) on disposal - 10% tax rate (if held for more than 12 months)

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Tax Free % - before 30 June 2017

	Accumulation 15%	Retirement 0%	
		From 1/07/2017	
36%	$900,000	$1,600,000	64%

SEGREGATED

$900,000 Term Deposit	Property $1.6M
Interest $2,000	Rent $30,000

Part Retirement Phase = Unsegregated Fund

Utilise Segregation for Tax Purposes
Interest $2,000 taxed at 15% = $300
Rent $30,000 = tax free

CONNOR SUPERANNUATION FUND

Tax Free % - from 1 July 2017

	Accumulation 15%	Retirement 0%	
		From 1/07/2017	
36%	$900,000	$1,600,000	64%
	$900k Term Deposit	Property $1.6M	
	Interest $2,000	Rent $30,000	

Part Retirement Phase = Unsegregated Fund

For tax purposes - interest and rental income are combined and the total income x actuary % (36% above) is tax at 15%
(or 10% for discounted capital gains)

Interest plus Rent times Actuary % = $32,000 x 36%
Taxable Income of $11,520 x 15% = $1,728

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Comments on Pension Changes

WHAT HAPPENS ON DEATH?

- **Do death benefit income streams count towards the reversionary beneficiary's $1.6M cap?**

  Yes - if the reversionary recipient already has a $1.6M income stream, they will need to roll back their own pension or pay out the death benefit as a lump sum (if auto-reversionary-within 12 months, or as soon as practicable)

  Death benefit recipients may need to roll back their own pension/s and use their reset $1.6M cap to start the death benefit income stream = more money left in Super

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Estate Planning Considerations

	Accumulation 15%	Retirement 0%
Mark Died 30/6/17	$400,000	$2,000,000
Leanne	$200,000	$3,000,000 $2,400,000

Transfer entire death benefit to spouse as a DB income stream

Post 1/7/2017 - Receipt of $2.4M DB income stream is a credit to Leanne's Transfer Balance cap account = breach of her TB Cap

CONNOR SUPERANNUATION FUND

Estate Planning Considerations

	Accumulation 15%	Retirement 0%
Mark Died 30/6/18	$400,000	$2,000,000
Leanne	$200,000 $3,000,000	$3,000,000 $(3,000,000) $1,600,000

$800,000

- Testamentary Trusts?
- Spouse's name?

Surviving spouse transfer pension to accumulation account

Transfer up to Spouse 's transfer balance cap to a DB income stream

SO… How much does this cost?

Financial Professionals

14.114 Individuals often rely on financial professionals when making financial decisions and when seeking advice regarding superannuation taxation more broadly. As such, some of the costs identified for individuals would be passed onto financial advisers and accountants (tax agents). However, given the role that these professionals play in the financial services industry these costs would be expected to form part of business as usual practices and would be relatively insignificant.

14.115 Given some individuals would seek the assistance of financial professionals to understand and or comply with any of the proposed measures (if there were chosen as part of an option), financial professionals would be expected to benefit in the transition to the new arrangements through increased service and advice fees, and reduced operation costs (via economies of scale). The extent of the benefit cannot easily be estimated, as it would depend on the measures chosen and the behavioural responses of the affected individuals.

14.116 Note: the benefits provided to financial professionals through increased revenue would be obtained by imposing a cost (increased fees) on individuals.

Extract from the EM - SUPERANNUATION (OBJECTIVE) BILL 2016 TREASURY LAWS AMENDMENT (FAIR AND SUSTAINABLE SUPERANNUATION) BILL 2016 SUPERANNUATION (EXCESS TRANSFER BALANCE TAX) IMPOSITION BILL 2016

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Licensing for Accountant's Giving Superannuation Advice

- **From 1 July 2016, all accountant's providing specific advice in relation to areas such as:**
  a) **Setting/Wind up a SMSF**
  b) **Superannuation Contributions/Pensions**
  c) **Superannuation Death Benefits**

  must hold an Australian Financial Services Licence (or be an Authorised Representative of an AFSL holder)

- **Leanne Connor and Tony Grosso are Authorised Representatives of Zest Wealth Advisers from 1 July 2016**

Process for Providing Superannuation Advice

- Authority to share information signed (WGC to Zest Wealth Advisors)
- Provide client with Financial Services Guide (FSG)
- Complete client Fact Find and establish financial goals & advice needs (possible meeting)
- Prepare Statement of Advice (SOA)
- Meet Client to present advice and sign off on Fact Find (if apply.) and Authority to Proceed
- Implement Advice
- Refer to another Planner for other advice needs

Cost Range - $1,650 to $3,300 (GST incl.)

QUESTIONS?

Facts Sheets from Treasury have been included in your Seminar Information Packs

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