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How might the latest superannuation changes affect you?

With several major changes to Australia's superannuation system due to take effect from 1 July 2017, here's a summary of the main ones. These changes involve a lot of fine detail, so if you think you may be affected make sure you seek qualified advice sooner rather than later.

New $1.6 million cap on retirement balances

This move limits the sum that retirees can invest in tax-free pensions. It will also apply to current pensions, so if you have more than $1.6 million in retirement stream products on 1

July 2017 you will need to roll the excess back to an accumulation phase account where earnings will be taxed at 15%.

This cap will be indexed in line with inflation, in $100,000 increments. The Federal Government estimates this figure will grow to $1.7m by 2020-21. Also, once the income stream is established within the applicable limits, subsequent earnings will not be subject to the cap.

If you are intending to set up a pension account before 1 July 2017, take this cap into account to avoid creating additional headaches.

New non-concessional contributions cap

The current limit on non-concessional (i.e. after tax) contributions is $180,000 per annum or $540,000 over three years. From 1 July 2017, the limit is reduced to $100,000pa or $300,000 within any three-year period. In addition, people who have reached their retirement balance cap (initially $1.6 million) at the start of each financial year will be unable to make non-concessional contributions.

If you plan on making large non-concessional contributions, perhaps from the sale of a property for example, be aware that the current caps apply until 1 July 2017.

Concessional contributions cap reduced

Current annual caps on pre-tax contributions are $30,000, or $35,000 for over-49s. From 1 July 2017, these reduce to $25,000 per annum, irrespective of age.

This measure is softened in that, from 1 July 2018, if you have a super balance of less than $500,000, you will be able to carry forward any unused cap for up to five years.

As for this financial year, if you currently contribute less than your current cap you may want to up your salary sacrifice or self-employed contributions prior to July 2017 if appropriate. Reduced income threshold for additional contributions tax

The annual income threshold above which superannuation contributions are taxed at 30% (rather than the usual 15%) will be reduced from $300,000 to $250,000.

Tax-deductions on super contributions extended to all

From 1 July 2017 all residents under 65, or between 65 and 74 if they meet the work test, will be able to claim a tax deduction for superannuation contributions they personally make. This is a win for workers whose employers don't allow salary sacrifice contributions, and some individuals who are both self-employed and employees. Don't forget that the concessional contribution cap will still apply.

Tax on earnings to be applied to Transition to Retirement (TTR) pensions

The current tax-free status of TTR pensions will be removed, so earnings within the fund will be taxed at 15%. The tax treatment on pension payments to individuals will remain unchanged.

Linked to this, individuals will no longer be able to treat certain superannuation income stream payments as lump sums for tax purposes. Currently such lump sum payments are tax-free up to the lifetime threshold low rate cap ($195,000).

Extended spouse tax offset

Currently, an individual who makes a superannuation contribution for a spouse earning less than $10,800 per year can claim a tax offset of up to $540. The threshold will rise from $10,800 to $40,000, increasing the number of people able to claim the offset.

Removal of anti-detriment rule

Super funds will no longer be able to claim a tax deduction for a portion of a death benefit paid to a dependent. An anti-detriment payment represents a refund of the 15% paid on contributions made by the deceased member over their lifetime. The government claims the current provision is inconsistent with parts of tax law.

Tax exemptions extended to additional retirement phase products

Deferred lifetime annuities and group self–annuitisation products will receive a tax exemption on earnings in the retirement phase, bringing them into line with other retirement income streams.

The importance of advice

These changes will affect us all in different ways, and as they do little to simplify the superannuation system, it's critical to seek expert advice to ensure that you continue to make the most of your retirement savings.