METROPOLITAN FIRE SERVICE SOUTH AUSTRALIA

SUPER INFO

WINTER 2017

What's inside:

Super changes

FROM 1 JULY 2017

Reduced contribution caps

Following last year's budget, superannuation members will face a raft of new rules from 1 July 2017.

The tax concessions offered in the super environment remain generous and the final superannuation reform package, approved in November 2016, is in-line with the Government's objective of ensuring the superannuation system is fair, flexible and fit for purpose.

The following summarises the changes in 2017/2018 impacting super contributions. You can also read about changes to transition to retirement and pension accounts here. If you have any questions about these changes call the Manager on 08 8204 3826.

SUPER CHANGES FROM 1 JULY 2017 – SUPER ACCOUNTS

Six changes to super contributions

From 1 July there are five significant changes being made to what you can contribute to your super account and how. Now is the time to act to take advantage of current caps before they are cut. Make sure you understand what they mean for you and speak to a financial adviser if you need help adapting your contribution strategy. The Scheme Manager can be contacted on 08 8204 3826.

1 Reduced concessional (before-tax) contributions

The concessional contribution cap for before-tax super contributions – including employer Superannuation Guarantee payments and salary sacrifice – will drop to $25,000 a year for everyone; down from $30,000 for those aged under 50 and $35,000 for those 50 or older.

The change will make it more difficult to boost your super quickly in the years leading up to retirement, so you'll need to start thinking about super earlier in your career.

The new caps don't come into effect until 1 July 2017, so there's still time to take advantage of the existing, more generous limits.

2 Reduced non-concessional (after-tax) contributions

After-tax superannuation caps will drop to $100,000 a year, down from $180,000. Those under age 65 will still be able to "bring forward" three years of after-tax contributions, but the limit will be reduced to $300,000, down from $540,000.

Under the new rules, you won't be able to make any non-concessional contributions once your total super balance reaches $1.6 million.

Again, the new caps don't come into effect until 1 July 2017 so there may still be time to take advantage of the existing, more generous limits.

3 Spouse contributions more widely available

The spouse tax offset will be extended to more couples. Before 1 July, 2017, a tax offset of up to $540 is available for individuals who make superannuation contributions to their spouse's account – if their spouse's total income is less than $13,800.

Under the new rules the offset will be extended to those whose recipient spouses earn up to $40,000. The offset gradually reduces for incomes above $37,000 and completely phases out at incomes above $40,000.

The move means there is greater flexibility to support your partner and include spouse contributions as part of your overall strategy.

4 Widening access to concessional contributions

All individuals under the age of 65, and those aged 65 to 74 who meet the work test, will be able to claim a tax deduction for personal contributions to eligible superannuation funds up to the concessional contributions cap.

An income tax deduction for personal superannuation contributions before 1 July 2017 is only available to people who earn less than 10 per cent of their income from salary or wages.

5 Introducing catchup contributions

From 1 July 2018, super members will be able to "carry forward" any unused concessional cap amounts for up to five financial years. This change will apply to people with total super balances of less than $500,000.

Unused amounts "carried forward" can only be used in subsequent years, so the first year in which you'll be able to access the ability to contribute more than the normal cap is 2019/20.

Catch up contributions could be helpful for those who take time out of work, whose income varies considerably from one year to the next, or whose circumstances have changed and are now in a position to increase their contributions to superannuation.

6 More super tax on high incomes

People with a taxable income of over $250,000, including any concessional contributions, will pay 30% tax on their concessional contributions from 1 July 2017.

Up to 30 June 2017, only those with an adjustable income of more than $300,000 pay the higher rate of 30 per cent. Even at the higher rate, super still offers a discount of about 17% compared to the highest marginal tax rate.

Now is the time to act

Contribution caps are about to be cut but current rules apply until 30 June 2017, providing an opportunity to increase or decrease your before-tax contributions. So it's time to act.

Before 1 July:

- before-tax contribution caps are $30,000 a year for those under 50 and $35,000 a year for those 50 or over;
- after-tax contribution caps are $180,000 a year;
- the three-year bring-forward rule on after-tax contribution is $540,000 for those under the age of 65.

Pensions capped at $1.6 million

The following summarises the changes in 2017/2018 impacting transition to retirement and pension accounts. If you have any questions about these changes call the Manager on 08 8204 3826

Pensions capped at $1.6 million

From 1 July 2017, there will be a limit on how much of your super you can transfer from your super account to a tax free pension account. This limit is known as the 'transfer balance cap'.

New and existing pension accounts that support your tax-free retirement income will be counted towards the transfer balance cap.

If you already have more than $1.6m in assets supporting your pension you'll need to remove the excess. If your balance is between $1.6m and $1.7m on 1 July 2017 you'll have until 31 December 2017 to comply with the new rules. If you have more than $1.7m, you'll need to act before 1 July.

You can reduce your pension balance either by rolling the excess amount back into an accumulation account – where you'll pay 15% tax on any earnings – or investing it outside of super – where you'll pay your personal rate (ranging from 0% to 47%) on any earnings.

There is no limit on the amount of money you can have in your normal accumulation super account where earnings are taxed at 15%.

Capital gains tax relief is available if you have to move an asset from pension to accumulation phase in order to satisfy the $1.6 million transfer balance cap.

Whether you choose to roll your additional funds back into super or invest elsewhere depends very much on your personal circumstances – particularly your income outside of super – and is something you should speak to a financial adviser about.

If you start a pension after 1 July 2017, your opening balance will be restricted to $1.6 million. Later earnings are not included in the cap so your pension account can grow over time to more than $1.6 million.

Transition pension earnings no longer tax-free

From 1 July, popular transition to retirement (TTR) accounts will lose their tax-free status so earnings will be taxed at 15%, just like a normal super account.

The tax on the income you draw from your TTR will stay the same – your marginal tax rate less 15% if you're under 60 and tax-free if you're over 60 – but the tax on earnings means the argument for a TTR strategy after July 1, 2017 is not as compelling, particularly for those on high incomes and those aged under 60-years.

But if you started a TTR because you wanted to work less hours and supplement your income, or because you needed money to pay down some debt, then it might still be the right for you.

Existing retirees will have to bring their pension balances under $1.6 million before 1 July 2017

Existing pension accounts in excess of $1.6 million will incur penalty tax similar to excess contributions. Existing retirees whose pension account balance(s) will be, or will likely be, more than $1.6 million at 1 July 2017 have the option to either transfer the excess back into an accumulation account or withdraw the excess from super.

The $1.6 million transfer balance cap applies across your total pension assets (which may be held in multiple pension accounts across multiple superannuation funds).

A cancelled pension will refund previously used cap amounts, allowing a new pension to be commenced without breaching the transfer cap. This allows product switching of pensions, or moving back and forth from super to pension as income needs change.

Speak to your financial adviser who can help you review your options and advise any actions you need to take if your balance is, or will likely be, over $1.6 million.

Medicare levy

Most tax payers will soon pay higher tax after the government announced an increase in the Medicare Levy to help fund the $22 billion National Disability Insurance Scheme.

The levy is set to increase by 0.5 percentage points – from 2 to 2.5 per cent of taxable income from 1 July 2019.

Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased.

The levy will be reduced for some taxpayers. Income thresholds where the Medicare Levy kicks in will increase, so more people on low incomes will pay no Medicare Levy or a reduced level. These increased thresholds will apply for the current financial year onwards.

	2015/16*	2016/17 (Proposed)
Singles	$21,335	$21,655
Family	$36,001 **plus** $3,306	$36,541 **plus** $3,356 per child
Single Pensioner	$33,738	$34,244
Family Pensioner	$46,966 **plus** $3,306	$47,670 **plus** $3,356 per child

* At the time of writing, the 2016/17 rates for Medicare Levy thresholds that would apply under existing legislation have not been announced.

The pensioner concession card and the age pension eligibility

The Pensioner Concession Card will be reinstated to those who were no longer eligible for the pension due to the changes to the assets test change introduced on 1 January 2017.

This means that seniors will regain access to State and Territory based concessions that were withdrawn after the change.

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People on the age and disability support pensions and parenting payment will also receive one-off cash payments to help cover their winter energy bills — $75 for singles and $125 for couples.

Meanwhile, the government will tighten eligibility for the age pension to foreigners and there are some new rules.

To get the Age Pension, you must have been an Australian Resident, continuously, for 15 years, unless:

- You have had 10 years' continuous Australian residence, with 5 years of this residence between age 16 and Age Pension Age, or
- You have 10 years continuous Australian residence, without having received an activity tested income support payment (mainly Newstart) for a cumulative period of five years.

Depending on your birthdate, from 1 July 2017, the Age Pension age will be 65 years and 6 months. After that, Age Pension age will go up 6 months every 2 years until 1 July 2023.

Big four plus Macquarie hit with major levy, but who will pay?

Treasurer Scott Morrison announced a new tax on Australia's big four banks plus Macquarie designed to help towards budget repair. He said the tax was designed to generate a "fair contribution from our major banks, similar to measures imposed in other advanced countries" and would "even up the playing field for smaller banks".

The new tax applies to many of the different types of borrowing that banks use to fund their lending. This includes corporate bonds and deposits over $250,000, but excludes shareholders' capital and smaller deposits even though these are still covered by the Government's guarantee.

The new tax will apply from 1 July to deposit-taking institutions with licensed liabilities of $100bn or more, which scoops up the five major banks. Commonwealth, NAB, ANZ, Westpac and Macquarie will each pay 0.06% of their liabilities. The tax could potentially yield $6 billion over four years.

The new tax is unlike the previous bank deposit tax in that it does not take into account deposits below $250,000. It does not apply to superannuation funds or insurance companies.

The effect of the tax is likely to be reflected in the banks' charges to customers in the form of increased home loans rates, as well as possibly other fees and charges.

HELP hits workers earlier

Thousands of university graduates would be forced to pay off student debts sooner under plans to reduce the HECS/HELP threshold from more than $55,000 to just $42,000.

HELP loan repayment thresholds and rates will be set to new levels from 1 July 2018.

At the new low payment threshold of $42,000 a graduate will repay 1% of their income, or $420 per year.

The repayment rate will increase with income, from 1% at the minimum threshold to 10% at $119,882, the maximum threshold; considerably higher than the previous 8% maximum.

Meanwhile all higher education course fees will begin to rise, as the government reduces funding to universities.

Student fees will increase by 1.82% per year for four years, resulting in a total increase in higher education fees of 7.5%.

These fee increases will apply to all students, regardless of when they commenced their study.

Freeing up the family home

Older people will be allowed to direct up to $300,000 from the sale of their primary home into super – three times the newly established cap on non-concessional contributions.

From 1st July, people aged 65 or over who downsize from a property that has been their main residence for a period of at least ten years, will be able to make a non-concessional contribution of up to $300,000. These contributions will be in addition to those currently permitted under existing rules and caps, and will be exempt from the work test or the $1.6 million balance test.

Couples selling a jointly owned main residence can contribute up to $600,000 of the proceeds, between them.

The move is part of the Federal Government's attempt to tackle Australia's overheated property market by freeing up established homes and increasing supply.

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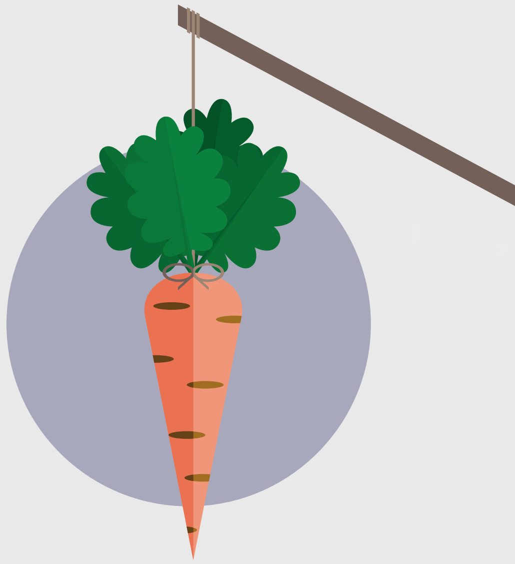
While the move is generally a welcome proposal to allow individuals to top up their super, there may be Centrelink implications which retirees may need to consider, should this scheme come into effect. While the principal place of residence is not counted against the assets test but if it is sold that the money is paid into super, that money will count towards the asset test.

With the main benefit of super being that it offers lower tax rates but if a retiree is on the Age Pension, they won't be paying tax. It might be simpler to invest the money personally."

If you have any questions about these changes call the Manager on **08 8204 3826**.



Tax carrot for property investors

Individual property investors will be offered more tax incentives to pour money into low cost housing.

From 1st January 2018, the capital gains tax discount for individuals investing in "affordable" residential property will increase from 50% to 60%.

To qualify for the extra discount, the housing must be provided to "low or moderate" income tenants and the rate of rent being charged must be at a discount to the market rate.

The affordable rental housing must be managed through a registered community housing provider and the investment held for a minimum of three years.

Financial experts contend that the scheme could attract certain investors such as those with a socially responsible ethos, but it's not a simple proposition. While the additional capital gains tax discount is a considerable factor, investors will still need to consider whether other factors such as the likely yield, future resale value and whether it complements their other investments.

Super first home accounts

First home buyers will be able to use their super to save up to $30,000 for a house deposit under the federal government's housing affordability package.

Under the scheme first home buyers will be able to direct $30,000 over and above their compulsory employer contributions, into their super account, specifically for a house deposit.

Those contributions will attract the same tax benefits of super, with contributions and earnings taxed at 15 per cent, rather than marginal rates. Contributions are capped at $15,000 in a single year and cannot include compulsory employer contributions. These contributions count towards your $25,000 concessional cap.

The new rules take effect from 1 July 2017 and withdrawals, which will be taxed at 30 per cent below the member's marginal tax rate, will be allowed from 1 July 2018. Money withdrawn must be used to fund a first home deposit.

Financial experts indicate the scheme may have the added benefit of engaging more people, particularly younger members, with their super. For many first home buyers, the scheme potentially offers an accessible method of saving their first home deposit. Additionally, by using super as an existing structure, the Government can avoid creating any extra complexity.

For many first home buyers, the scheme potentially offers an accessible method of saving their first home deposit.

Within a couple, both individuals can take advantage of the scheme, doubling the potential deposit.

*Remember, defined benefit employer and compulsory pre-tax contributions are notionally calculated at 14.4% of your salary and count as part of your $25,000 concessional contributions cap up until age 60 (pro-rated in the financial year you turn 60).

2017 Federal Budget announcements are proposals only. They have not been legislated and may be subject to change.

The material contained on this site is based on information received in good faith from sources within the market and on our understanding of legislation and government press releases at the date of publication which we believe to be reliable and accurate. Neither Mercer, nor any of its related parties or the Scheme accepts any responsibility for any inaccuracy.

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