Non-Concessional Contributions : EOFY18

Just like concessional contributions, there is a limit on how much after-tax super contributions you can make each year. This is the non-concessional contribution cap. If you are under 65, you may be able to make non-concessional contributions of up to three times the annual non-concessional contributions cap in a single year. If eligible, when you make contributions greater than the annual cap, you automatically gain access to a future two years cap. This is known as the ‘bring forward’ arrangement.

From 1 July 2017, the non-concessional cap has been reduced to $100,000 per annum with a maximum of $300,000 using the bring forward arrangements. Last year the cap was $180,000 per annum. Since the cap has reduced, it’s important to understand this transition period. If the bring forward rule was triggered in the last 2 years, you need to assess if there is any “gap” left to contribute any further this year.

To understand what the maximum contribution allowed over the 3 years, we need to understand when the bring forward rule was triggered. If the contribution in 2015-16 was more than $180,000, then that is the starting year for the 3-year period. If the full 3-year cap was not used prior to 1 July 2017, then the total non-concessional contribution which can be made over the 3 years (2105-16, 2016-17 and 2017-18) is $460,000. If the contribution in 2016-17 was more than $180,000, then that is the starting year for the 3-year period. If the full 3-year cap was not used prior to 1 July 2017, then the total non-concessional contribution which can be made over the 3 years (2016-17, 2017-18 and 2018-19) is $380,000.

	2015 - 16	2016 - 17	2017 - 18	2018 - 19	2019 - 20
Non-concessional Contributions Cap	$180K	$180K	$100K	$100K	$100K
Max contribution which can be made using the bring forward rule.	Max $460K can be contributed*				
		Max $380K can be contributed*			
			Max $300K can be contributed		

* If the full 3-year cap was not used prior to 1 July 2017.

If this was not confusing enough, if you have more than $1.6M in your total super balance on 30th June of the year prior to which a contribution is made, you will not be able to make any non-concessional contributions to super. The difference between your 30th June balance and $1,600,000 is known as your "Gap". This gap has nothing to do with your current balance but what your balance was on 30th June of the previous financial year. Depending on how big the gap is, you will be either able to contribute at all, just contribute to non-concessional contribution cap for the year or use the bring forward rule. If the gap is more than $200,000, you can contribute up to $300,000. If the gap is between $100,000 and $200,000, you can only contribute up to $200,000. If the gap is between $1 and $100,000, the maximum you can contribute is $100,000.

Amount in Super on 30th June 2017	Gap	Amount which can be contributed in 2017-18	Bring Forward period
Between $1,500,000 - $1,599,999	Between $1-$100K	$100K	1 year
Between $1,400,000 - $1,499,999	Between $100K -$200K	$200K	2 years
Between $1 - $1,399,999	More than $200K	$300K	3 years

Let's look at a few examples to make it easier to grasp all the "rules".

Tom had contributed $185,000 as a non-concessional contribution back in 2015-16. He made another contribution of $50,000 in 2016-17. Since he had gone over the $180,000 limit in 2015-16, the maximum he can contribute into super in 2017-18 is $225,000. This is calculated based on $180,000 (2015-16 cap) + $180,000 (2016-17 cap) + $100,000 (2017-18 cap) less $185,000 less $50,000.

Tom's super balance was $800,000 on the 30th of June. Since his gap is more than $200,000, he can make the full $225,000 contribution this year.

However, let's look at Mary's case. She had also made a non-concessional contribution in 2015-16 but limited it to $180,000. She did not make any contributions in 2016-17. Mary's super balance on 30th June 2017 was $1,510,000. Even though she has not used up her bring forward rule, since her gap is less than $100,000, the maximum she can contribute in 2017-18 is $100,000.

Susan on the other hand only has $900,000 in her super. She turned 65 in September 2017. She has not made any contributions in the last few years. Even though her gap is more than $200,000, and she has not triggered her bring forward rule, she cannot contribute more than $100,000 as she is over 65.

However, let's look at how receiving advice can make a bit of difference.

Alex turned 64 in September 2017 and is no longer working. She is considering selling her investment property. After paying down the loan and tax, she will have approximately $450,000 left. Her super balance is $1,250,000 and she has no problem contributing due to the balance. If she was to contribute $300,000 this year (the maximum using the bring forward rule), she will not be able to make any contributions after that. This is because she would not be able to contribute for 2 more financial years and would have already turned 65 as well. He adviser instead suggests that she make a $100,000 contribution this financial year. This would take her balance to $1,350,000 still leaving her with a gap to contribute further in 2018-19. Since she would still be under 65 in July 2018, she can make another contribution of $300,000 into super.

James is 60 and has $1,615,000 in his super at present and is still working. His balance as at 30th June 2017 was also above $1.6M, hence he was unable to make a non-concessional contribution to super for 2017-18. Since he is $15,000 over the $1.6M mark, he won't be able to make any non-concessional contributions for the next financial year (2018-19) either. Based on the advice he receives, he start a Transition to Retirement Pension with $400,000 of his super balance. He can withdraw between 4% and 10% of his pension balance. He takes a pension payment of $16,000 in June. On 30th June, his total super balance is now $1,599,000. The gap between his super balance and $1.6M is now between $1 and $100,000. After 1 July 2018, he can now contribute $100,000 to his super comprising of the $16,00 he withdrew plus an additional $94,000.

Contribution rules have become more complex. Before you contribute, you need to keep your contribution history, your 30th June balance and your age in mind. It is easy to miss important facts. Before you proceed, it is important to work the numbers out on how much you can contribute otherwise you may end up paying excess tax. Speak to your adviser to ensure you are maximising your savings and minimising your tax.

Sam Morris

Compliance and Technical Manager
Prime Financial Group

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Personal Concessional Contributions : EOFY18

Since 1 July 2017, a new opportunity to make a superannuation contribution was introduced for many Australians. From this date, anyone eligible to make personal super contributions can claim that contribution as a personal tax deduction, regardless of their work status. This change is a result of the removal of the '10% test' which generally meant you had to be self-employed or have no employment income in order to claim a deduction for your super contributions. This means that people who are employed who were normally excluded from claiming this deduction, can do so now.

This strategy suits people who:

- In the past have been reluctant to salary sacrifice as they were uncertain about their cash flow needs.
- Receive unexpected employment income and no prior salary sacrifice agreement was put in to place (e.g. Bonus).
- Earned too much in the past to meet the 10% test, but not enough to fully use CC cap via salary sacrifice —with the removal of 10% rule, this strategy is available to them.

There are a few things to remember:

- You can contribute to superannuation up to age 75 subject to meeting the work test between 65 and 75 years of age. To meet the work test, you need to be gainfully employment for at least 40 hours during a 30 day period.
- Any contributions for which you claim a personal deduction will count

toward your $25,000 concessional contribution cap. This cap also includes any Superannuation Guarantee or any other employer contributions made to super.

Steps to take to make the concessional contribution

You will need to make your super contributions **before 30 June 2018** if you want to ensure they are counted towards this year's cap. For it contribution to count for this year, it has to be received by the fund prior to 30 June. Since the processing can take a few days, do not leave it until the last day. In addition, you will need to lodge a 'Notice of Intent' form with your super fund. This is critical to ensuring you can claim a deduction for your contribution. You need to do this before you lodge your tax return is lodged for the year the contribution was made, or the end of the financial year following the financial year in which the contribution was made. You also have to lodge the notice before you exit the fund (e.g. rolled over your funds to another super fund, or withdraw them), or start a pension.

Speak to your adviser to ensure you are maximising your savings and minimising your tax.

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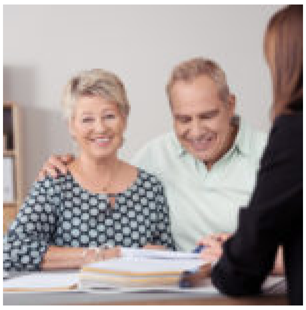

Super Series – Part 3

Non – Concessional Contributions – Part 1

As part of our super series articles, the focus this week is on non-concessional contributions. Non-concessional is the term associated with after-tax super contributions. After-tax contributions are super contributions for which an individual or employer hasn't claimed a tax deduction.

There are many advantages in making superannuation non-concessional contributions:

- Non-concessional contributions are not subject to the 15% contributions tax that applies to concessional (tax deductible) contributions.
- Earnings on superannuation non-concessional contributions are taxed at a maximum rate of 15%. Depending on your marginal tax rate, this may be significantly lower than the tax rate that would apply to earnings if your savings were invested outside super.

- Non-concessional contributions form the tax-free component of the super balance. When a lump sum benefit or pension is paid to you, this benefit is paid out tax-free.

Just like concessional contributions, there is a limit on how much after-tax super contributions you can make each year. This is the non-concessional contribution cap. If you are under 65, you may be able to make non-concessional contributions of up to three times the annual non-concessional contributions cap in a single year. If eligible, when you make contributions greater than the annual cap, you automatically gain access to future year caps. This is known as the 'bring forward' arrangement.

From 1 July 2017, the non-concessional cap has been reduced to $100,000 per annum with a maximum of $300,000 using the bring forward arrangements. Last year, the cap was $180,000 per annum. Since the cap has reduced, it's important to understand the transition period and to assess if you still have any capacity left to contribute any further this year.

If this was not confusing enough, if you have more than $1.6M in your total super balance on 30th June of the year prior to which a contribution is made, you will not be able to make any non-concessional contributions to super. The difference between your 30th June balance and $1,600,000 is known as your "Gap". This gap has nothing to do with your current balance but what your balance was on 30th June of the previous financial year. Depending on how big the gap is, you will be either able to contribute at all, just contribute to non-concessional contribution cap for the year or use the bring forward rule. If the gap is more than $200,000, you can contribute up to $300,000. If the gap is between $100,000 and $200,000, you can only contribute up to $200,000. If the gap is between $1 and $100,000, the maximum you can contribute is $100,000.

You can find more details about the non-concessional contribution limitations here.

Let's look at a few examples to make it easier to grasp all the "rules".

Tom had contributed $185,000 as a non-concessional contribution back in 2015-16. He made another contribution of $50,000 in 2016-17. Since he had gone over the $180,000 limit in 2015-16, the maximum he can contribute into super in

2017-18 is $225,000. This is calculated based on $180,000 (2015-16 cap) + $180,000 (2016-17 cap) + $100,000 (2017-18 cap) less $185,000 less $50,000.

Tom's super balance was $800,000 on the 30th of June. Since his gap is more than $200,000, he can make the full $225,000 contribution this year.

However, let's look at Mary's case. She had also made a non-concessional contribution in 2015-16 but limited it to $180,000. She did not make any contributions last year. Mary's super balance on 30th June 2017 was $1,510,000. Even though she has not used up her bring forward rule, since her gap is less than $100,000, the maximum she can contribute is $100,000.

Susan on the other hand only has $900,000 in her super. She turned 65 in September 2017. She has not made any contributions in the last few years. Even though her gap is more than $200,000, and she has not triggered her bring forward rule, she cannot contribute more than $100,000 as she is over 65.

However, let's look at how receiving advice can make a bit of difference.

James is 60 and has $1,605,000 in his super and is still working. Since he is $5,000 over the $1.6M mark, he cannot make any non-concessional contributions. Based on the advice he receives, he start a Transition to Retirement Pension with $60,000 of his super balance. He can withdraw between 4% and 10% of his pension balance. He takes a pension payment of $5,001 in June. On 30th June, his total super balance is now $1,599,999. The gap between his super balance and $1.6M is now between $1 and $100,000. After 1 July, he can now contribute $100,000 to his super comprising of the $5,001 he withdrew plus an additional $94,999.

Alex turned 64 in September 2017 and is no longer working. She is considering selling her investment property. After paying down the loan and tax, she will have approximately $450,000 left. Her super balance is $1,250,000 and she has no problem contributing due to the balance. If she was to contribute $300,000 this year (the maximum she can using the bring forward rule), she will not be able to make any contributions after that. This is because she would not be able to contribute for 2 more financial years and would have already turned 65 as well. He adviser instead suggests that she make a $100,000 contribution this financial year. This would take her balance to $1,350,000 still leaving her with a gap to contribute further. Since at the start of the next financial year (July 2018), she would still be under 65, she can make another contribution of $300,000 into super.

Contribution rules have become more complex. Before you contribute, you need to keep your contribution history, your 30th June balance and your age in mind. It is easy to miss important facts. Before you proceed, it is important to work the numbers out on how much you can contribute otherwise you may end up paying excess tax. Speak to your adviser to ensure you are maximising your savings and minimising your tax.

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Super Series – Concessional Contributions – Part 2

Super Contributions are not just for the high-income earners

This week, we continue exploring more details around Concessional Contributions and strategies which can benefit you.

Making concessional contributions is often left for the higher income earner of the family as it can reduce their marginal tax rate significantly. This means that they end up with more savings in their super than their partner who may be on a lower taxable income. In the past it did not matter if a couple had unequal super balances as there was no restriction on how much you could have in pension phase. With the introduction of $1.6M cap on pension funds, equalising super balances could mean more of their retirement savings can be held in a tax-free environment.

Cashflow permitting, contributing to super for those whose adjustable taxable income is $37,000 or less can mean a substantial boost to their retirement savings. The Low Income Superannuation Tax Offset (LISTO) is a Commonwealth Government super contribution paid into super accounts to help low income earners save for their retirement. LISTO is essentially a refund of the tax that's been deducted from your concessional contributions (salary sacrifice and/or employer contributions) over the course of the financial year. Since its capped at

$500, by limiting the contribution of $3,333, you are getting the maximum the 15% contribution back.

Scenario 1

Lance has recently reduced his hours of work. His wife Margaret is still working full time and their budget indicates that they only need $30,000 from Lance's income to meet their expenses. Lance earns $32,000 from his business and $5,000 in dividends from some shares he holds. Since he earns more than 10% of his income from his business, his Financial Adviser suggests he contributes $3,333 into his super. Lance is able to save $700 more towards retirement than before. By itself you may feel that $700 is not a significant saving however, it equates to him saving 22% more than what he was before.

	Without Super contribution	**With Super contribution**
Total Income (A)	$37,000	$37,000
Amount contributed to super as a concessional contribution (B)	$0	$3,333
Taxable Income (C=A-B)	**$37,000**	**$33,667**
Tax on Income including Medicare (D)	$3,867	$3,167
Net Income (E=C-D)	**$33,133**	**$30,500**
Required Income to meet expenses (F)	$30,000	$30,000
Surplus Money in savings account (G=E-F)	**$3,133**	**$500**
Tax on super contribution (H)	$0	$500
Low Income Super Tax Offset Received (I)	$0	$500
Net Super Balance (J=B-H+I)	$0	$3,333
Total funds saved towards retirement (G+J)	**$3,133**	**$3,833**

Another strategy often not explored is contribution splitting. Contribution splitting provides a superannuation member with the opportunity to split up to 85% of concessional contributions received in a financial year with their spouse. The split is permitted in the year after the contribution has been received by the fund. However, where a member is closing or rolling over their account in the fund, the split can take place in the year of the concessional contribution. The contribution only counts towards the originating spouse's concessional cap. It does not count towards the receiving spouse's cap.

In order to make the split, the contribution must first be made to the superannuation fund and credited to the member's account where it is taxed. The contribution is not made directly to the spouse's account. The next step is for the member to make an election to split the contribution to the spouse and indicate the amount.

Contributions can be split with a spouse who is under their preservation age regardless whether they work or not; or between their preservation age and 65 and has not met the retirement condition of release.

The super fund will transfer the relevant contributions to an account held by the spouse. The payment of the split contributions to the spouse is referred to as a 'contributions-splitting super benefit' and is paid as a rollover super benefit.

A 'Notice of Intent to Claim or Vary a Deduction' for personal super contributions must be submitted to the super fund and accepted by the trustee before, or at the same time as, you lodge the super contributions splitting application. The splitting application would otherwise be invalid, as only deductible personal contributions can be split.

While one of the main advantage of splitting is to share the amount saved for retirement between a couple, there are also some additional advantages of this strategy. By splitting the contributions, you can also:

- pay for insurance premiums for a non-working or low-income spouse;
- provide super benefits earlier if you were splitting with an older spouse; or
- improve your Centrelink position by splitting contributions with a younger spouse.

Since the maximum amount that can be split to a spouse is limited to $21,250 (85% of $25,000), contributions splitting is a long-term strategy. Not every super fund needs to allow contribution splitting and hence seeking advice prior to making any contributions is imperative. Speak to your adviser today to ensure you are taking advantage of all the options available to maximise how much you and your spouse save for your retirement.

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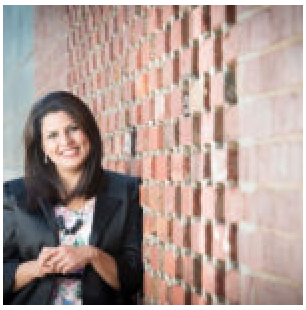

Superannuation – what you need to

know

Sam Morris has had a diverse career but loves her role heading up compliance and training at Prime Financial.

Barney Zwartz reports- Originally Published in GROW Magazine Vol. 1

Sam Morris bounces into the interview with a huge smile. “I bet you were expecting a white male when you read my name,” she says. I have to confess I wasn’t expecting this ebullient Indian woman, exuding good humour like a physical force.

“No one can pronounce my real name (Samidha), and Morris is my married name,” she explains. A journalist in India, Morris switched careers after arriving in Australia in 2003 when her lack of local experience proved insurmountable in landing a journalism job.

Optimism undaunted, Morris began working in a call centre in Melbourne, trained for a special project on phone-based insurance advising, kept studying and became a financial adviser. Thanks to her agility with figures and desire to understand “how things work”, she found she particularly enjoyed the compliance and technical aspects of the financial advice industry, and now – via a stint in paraplanning – she is Prime’s compliance, technical and training manager.

For the next few months, massive changes to superannuation regulations after a period of uncertainty will take much of her attention. There’s a lot of information to decipher and apply, she says.

Many changes to super rules were announced in the May 2016 budget but failed to pass both houses of Parliament, which put the industry into limbo. The picture became clear in November, but that has allowed only a few months for the advisers to get on top of what these changes are, understand how their clients are impacted, make appropriate recommendations to them and implement these strategies before July 1.

People under 65 have the last opportunity before 30 June 2017 to contribute up to \$540,000 using the bring forward rule into their super as a non-concessional contribution, irrespective of how much they already have in super. From July 1, not only will the cap reduce to a maximum of \$300,000 using the three year bring forward option, but anyone with over \$1.6 million in their super will not be able to make any further non-concessional contribution.

The introduction of the \$1.6 million cap in pension phase is also a noteworthy change. Until June 30, all earnings inside a pension are tax free. From July 1, only \$1.6 million can be in the pension phase with no tax – any extra funds must be withdrawn from pension and either moved to accumulation phase or withdrawn from super all together. Earnings from assets in accumulation phase will be taxed at 15% or if held in your personal name, at your marginal tax rate. Morris states "It could be a fine line balancing tax payable, having flexibility in options available now and later, and understanding how any changes to personal circumstances in the future could impact the outcome."

Similarly, changes to the transition to retirement (TTR) pensions will impact many clients. TTRs were originally introduced to assist people who were gradually moving into retirement via part-time work. You didn't have to retire to withdraw your super benefits. However many people used the strategy for boosting super savings and tax management. Well, the zero tax environment ends on July 1. The income generated from the investments supporting the TTR pensions will now be taxed at 15%, which means many clients may need to review this strategy.

The super changes are too broad and complex to deal with in a short article, and Morris recommends that clients talk to their advisers regarding their personal situation. "An adviser can simplify things by removing the technical jargon and recommend some strategies after analysing how they would impact a client now and in the future. There is no one size fits all solution. Not getting the right advice could be costly, both now and later for their estate."

That reflects the biggest lesson Morris has learned in finance: "Every client is different, everyone's situation is different, and we have to respect that. I always follow the 'mum rule': would you do this for your mum if she was in this situation? If not, don't do it for the client."