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Self Managed Super

Today's Super
Tomorrow's Future

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The $1.6 million transfer balance cap – what does it mean for you?

- Amongst the 2016 Federal Budget changes was the introduction of a $1.6 million transfer balance cap which limits the tax exemption for assets funding superannuation pensions.

- This new limit on superannuation will apply from 1 July 2017 and creates additional responsibilities for SMSF trustees. The main issues you need to be aware of are is that only $1.6 million of your Fund can be in retirement phase (per member).

- Going over the $1.6 million transfer balance cap will require the excess amounts to be removed from the retirement phase which will likely require the commutation of the relevant pension which has exceeded the cap.

- Approaching 1 July 2017 people may wish to structure their asset holdings to be in a position to optimise the $1.6 million transfer balance cap, especially between spouses.

Reversionary Pensions

Who can be nominated as a reversionary beneficiary?

- Spouse
- Child < 18
- Child > 18 if they meet the following criteria:
    - 18–25 and financially dependent, or
    - Have a disability as outlined in the Disability Services Act.
- Financial dependent (at time of death)
- A person who is in an interdependency relationship (at time of nomination and time of death)

If your reversionary beneficiary is a child under the age of 18 at the date of your death, they can only receive your pension as an income stream until they turn 25, at which point they must convert the remaining pension into a tax-free lump sum, unless they suffer from a disability.

Death of a sole member

If you die you will of course cease to be an individual trustee, or a director of the company trustee, of your Fund.

- Individual trustees

If there are 2 individual trustees, and you as the sole member dies, then the other individual trustee will be left with total control over the fund. You need to be confident that the remaining individual trustee will exercise any discretion available to them (e.g. paying out death benefits) in accordance with your wishes. Under this scenario we recommend that a **binding death benefit nomination** be in place.

- Company trustee

If you were the sole director of the trustee company, then following your death, your 'Legal Personal Representative' will be appointed as a replacement director.

Under this scenario we also recommend that you put in place a **binding death benefit nomination**.

Contributions – what the changed caps may mean for you

With many of the changes announced in the 2016 Federal Budget now passed by Parliament, there is an amount of certainty that you can have when approaching your SMSF planning and the contributions you might wish to make to your SMSF.

The Government is lowering both the concessional and non-concessional contribution limits from 1 July 2017.

Below is a summary of the changes for both concessional and non-concessional contributions.

Non-concessional contributions

- The non-concessional cap is lowered to \$100,000 per year from 1 July 2017. The rules allow the opportunity to bring forward three years of contributions – making it possible to contribute \$300,000 in one year.
- For this financial year 2016/17, it is still possible to make a contribution of up to \$180,000 for one year, or to bring forward three years' contributions – so you are able to make a contribution of up to \$540,000. If you do not use this full limit of \$180,000 or \$540,000 in this year, then you may be limited to the \$100,000 annual and \$300,000 bring forward caps for future years (refer below).
- Where the bring forward of contributions has been triggered before 1 July 2017, transitional contribution caps may apply
- If you have a balance of \$1.6m or more in your SMSF at 1/7/2017 then you will no longer have a non-concessional cap, therefore these contributions will be subject to excess contributions rules.

Concessional contributions:

- The concessional contributions cap is lowered to $25,000 per year for all taxpayers from 1 July 2017.
- Taxpayers who were aged 49 or over on 30 June 2016 can still make up to $35,000 in concessional contributions in this financial year.
- Those aged under 49 on 30 June 2016 can still make up to $30,000 in concessional contributions in this financial year.

Some of these changes may require you to adjust your contribution strategies going forward.

This will most likely be the case if you have a superannuation balance of over or close to $1.6 million, were planning on making significant contributions to superannuation in the next few years or, have an existing salary sacrifice arrangement in place.

Changes to the Assets Test for Centrelink Aged Pensions from 1 January 2017

If you are over 65 and in receipt of a full or part Aged Pension, then you need to be aware that for every $1,000 owned above the assets test free amount your pension will be reduced by $3 (this was previously reduced by $1.50 for every $1,000).

The thresholds that apply are dependent on whether you are single or a couple, own your own home or not, and are either in receipt of a full or part pension.

For those on pensions and are single homeowners, the pension starts reducing when assets are in excess of $250,000. For couples it is when their assets are in excess of $375,000. For non-homeowners, it is $450,000 for a single and $575,000 for a couple.

For those on part pensions, the pension is cancelled when assets are more than the following amounts:

Single Homeowner	$542,500
Couple Homeowners	$816,000
Single Non-Homeowner	$742,000
Couple Non-Homeowners	$1,016,000