neo news
Financial Solutions
THE ONE for financial solutions
Second edition 2016

Changes ahead – the 2016 Federal Budget

This was not your typical Budget. Instead, the Treasurer, Scott Morrison, attempted to build an election platform for the Government. While there were certainly some major alterations to superannuation, in other areas, such as Centrelink, there were only minor changes.

We've summarised some of the key points from the Budget below, but remember these are proposals only and are subject to the passing of legislation. To find out more on how these affect you, please come and talk to us.

- Introduction of a $500,000, lifetime, non-concessional superannuation contribution cap.
- A new transfer balance cap of $1.6 million on superannuation that can be held in pension phase.
- Changes that reduce the tax-effectiveness of transition to retirement strategies.
- Reduction of the superannuation annual concessional cap to $25,000, regardless of age.
- Introduction of 'catch-up' superannuation concessional contributions for those with super balances under $500,000.

Superannuation

Changes to super were wide-ranging and aimed to help those on lower incomes while trimming some of the more generous concessions available to those on higher incomes.

Lifetime cap on non-concessional contributions

The Government is replacing the previous cap of $180,000 per year (or $540,000 over 3 years under the 'bring forward' provisions) with a lifetime cap of $500,000. This will be indexed, presumably on an annual basis. While this change is effective from Budget night, importantly it is also retrospective as it will take into account all non-concessional contributions made since 1 July 2007.

If you've already contributed more than $500,000 during this time, the extra amount will not be taxed but you won't be able to make any future contributions. If you breach your lifetime cap, you can have the excess refunded to avoid penalties.

Reduced concessional contributions cap

The Government intends to reduce the annual concessional contributions cap to $25,000 for everyone from 1 July 2017. The cap is currently $30,000 for people under age 50 and $35,000 if over age 50.

Concessional contributions catch-up

For those who have a super balance under $500,000, the Government proposes to allow them to make 'catch-up' concessional contributions. The aim of this change is to help people who have irregular work patterns, such as contractors, the self-employed or women, to grow their super. Unused concessional cap amounts can be carried forward on a rolling basis over a consecutive five-year period. Under the current system, a strict application of annual concessional contributions caps means that those people with irregular work patterns are at a distinct disadvantage, so this addresses that issue. The changes will become effective from 1 July 2017.

In this issue...

Transition to retirement strategies less effective

The tax exemption on earnings in a transition to retirement (TTR) pension will be removed, thereby reducing the tax-effectiveness of a TTR strategy. Withdrawals from TTR pensions will also not be able to be taxed as lump sums. If you are over 60 you will still benefit from receiving tax-free pension payments.

New limit on amount transferred to retirement accounts

In a move to limit the amount of tax-free earnings on your super, the Government intends to place a cap of $1.6 million on the amount you can transfer into your pension account. Any future earnings generated in your pension account will not be affected even if the balance goes over $1.6 million.

Those people already in retirement will need to reduce the balance of their pension account to $1.6 million by 1 July 2017. The $1.6 million cap will be indexed in $100,000 increments in line with the consumer price index. If you breach the limit then the excess will be taxed at the highest marginal tax rate, a very harsh penalty!

Removing the work test

The Government has decided to remove the work test for people aged between 65 and 74 who want to make voluntary superannuation contributions. The advantage for those affected is that they no longer need to satisfy a work test and can receive contributions from their spouse. This measure also applies to small business owners who often want to contribute the proceeds from their business after age 65. This cahnge takes effect from 1 July 2017.

Tax deductions for personal super contributions

This change means anyone up to age 75 can claim an income tax deduction for personal concessional super contributions up to the proposed $25,000 cap. This change abolishes the 10 per cent self-employed test and benefits people who can't take advantage of salary sacrifice.

Lower income threshold captures more high income earners

This change means that higher income earners will now have to pay an extra 15 per cent on their concessional contributions when their income is over $250,000, down from $300,000 previously. This change means more people will now have to pay an extra 15 per cent on their concessional contributions.

Assistance for lower income earners

There are two initiatives that assist lower income earners. The first is the Low Income Super Tax Offset, which provides a tax offset to the super fund of the member of up to $500 and effectively refunds the contributions tax that the member's super fund has already paid. This only applies for those who don't earn more than $37,000. The second initiative increases the eligibility for the Spouse Tax Offset so that the spouse who receives the contribution can now earn up to $37,000 instead of only $10,800, as was previously the case.

Anti-detriment provision removed

Anti-detriment payments used to effectively refund the superannuation contributions tax paid by a member who died. This increased the lump sum death benefit paid to spouses, former spouses and children. The Government wants to remove this provision because it reduces the amount of tax they receive from super funds. This change will be effective from 1 July 2017.

Centrelink

Support for unemployed young people was increased with the announcement of a program to encourage them to explore the potential of self-employment, while offering subsidies for businesses to employ young people. Additionally, from 1 October 2016, job seekers will enter the Work for the Dole phase after 12 months of participation in 'jobactive', instead of the current six months.

Taxation

To address bracket creep, the government has proposed an increase in the 32.5 per cent personal income tax threshold from $80,000 to $87,000. Business also benefits, with a proposed reduction of the company tax rate to 25 per cent. This new rate will be phased in depending on the size of the company or its turnover.

Piecing together your end of financial year strategies

For many of us, the New Year is about resolutions and one of the most common resolutions is to get fit. So as we approach the new 'Financial Year', now is a great opportunity to take a look at your financial health.

Superannuation

Super is one of the most tax-effective ways to invest your money. There may be a number of strategies you can take advantage of to improve your super, including if you:

- Have a spouse earning less than $13,800? Making a spouse contribution of up to $3,000 may entitle you to a tax rebate of $540.
- Are anticipating a bonus. Let your company know beforehand that you would like to salary sacrifice some or all of your bonus into super.
- Have turned 65 this financial year? This is your last chance to contribute up to $540,000 before 30 June 2016 by triggering the three year bring forward non-concessional contribution cap. **Please speak with us before making any non-concessional contributions as the current legislation may change.**

Personal Investments

For your personal investments, here are some strategies for any capital gains or losses you may have incurred:

- If you have investment debts, pre-paying 12 months interest may let you bring forward interest deductions to this financial year.
- If you have realised a capital gain, you may consider realising a capital loss to offset the effect of tax on those gains.
- If you are interested in moving your capital, talk to us about different investment structures available, including investment bonds or establishing a company.

Insurance

With most Australians underinsured there are a number of cost-effective ways to boost your insurance cover:

- Holding insurance inside super lets you fund your premiums using your accumulated insurance benefits. For those who have tighter cash flows, this can be useful.
- Pre-paying your annual Income Protection premiums lets you bring forward a tax deduction – as long as you own the policy yourself!

Keep in mind however that for insurance inside super, it's important to be aware of the policy definitions which are usually more restrictive than policies outside super.

SMSFs

For those who have an SMSF, there are some important considerations:

- If you hold collectables in your SMSF which were purchased before 1 July 2011, there are new rules coming into effect 1 July 2016. Talk to us to make sure your SMSF is compliant.
- If you are in pension phase, ensure the minimum pension has been paid. There may be consequences if this is not the case.

These are just some of the strategies which could improve your financial health in the New Financial Year. Give us a call to discuss how we can help.

Going overseas?
Don't forget to tell Centrelink

Many people look forward to the opportunity to enjoy their retirement by travelling overseas. For some, it means they plan to live overseas on a permanent basis so they can take advantage of lower living costs while for others it may mean reuniting with relatives who live overseas.

Whatever your plans, it helps to know that travelling overseas beyond a certain length of time can have a negative impact on your Centrelink entitlements. As the rules can be complex, it's important to be awre of them so you can plan your cash flow needs and avoid unpleasant surprises that may spoil your time away.

The table below shows how your Centrelink entitlements may be affected by temporary overseas

Pension	Pension+		CSHC+
Age pension After six weeks, maximum payment rate is reduced to: • Single — $20,664.80 per year • Couple (both eligible) — $31,153.20 After 26 weeks, your age pension may be reduced by more if the time you have lived in Australia between age 16 and age pension age is less than 35 years.	**Pension supplement** After six weeks, your age pension supplement will also be reduced. If you did receive the full rate of age pension then you will receive the following amounts (based on rates current as at 20 March 2016): • Single — $590.20 • Couple (both eligible) — $972.40	**Energy supplement** **Pensioner concession card** **Low income health care card** After six weeks, you will no longer qualify for these benefits.	**Commonwealth Seniors Health Card** After 19 weeks, your card will be cancelled.

If you retire permanently abroad, any social security cards you are entitled to will be cancelled when you leave and your payment rate will be reduced from the date that you are considered to no longer be a resident of Australia for social security purposes.

If you receive social security payments under an international social security agreement, the above rules may not apply. This is because each agreement details how the payment rate is calculated, which may be different to the general rules.

Once you are away for more than 12 months, your payment cycle will change from every two weeks to every four weeks, so it's important to plan your cash flow accordingly.

NEO Financial Solutions Pty Ltd
90 Edward Street
Perth WA 6000
Phone: 08 9227 1472
Email: admin@neofs.com.au