INFORMING
YOU

ARE YOU READY FOR THE CHANGES TO SUPER CONTRIBUTIONS CAPS?

The Government is making significant changes to super contribution rules. With these proposed changes now having passed the parliament and effective from 1 July 2017, it's worth understanding how the new rules could affect you.

Australia's super system is designed to help people save for their retirement years. As well as enabling retirees to become more financially independent, super also helps reduce the burden on the national social security system.

In this year's Federal Budget and in subsequent announcements, Treasurer Scott Morrison outlined plans to reform our super system to make it fairer and more effective. In particular, the Government proposed to reduce the caps for concessional and non-concessional super contributions.

On Wednesday 23 November 2016, the Federal Government's proposed changes to super rules were passed by the Parliament. You might also consider taking action in the short term – for example, by making higher non-concessional contributions before the changes take effect on 1 July 2017.

Changes to concessional contributions

Pre-tax or concessional super contributions are the contributions you make without paying your marginal rate of income tax on them. They include:

- compulsory contributions from your employer, such as Super Guarantee (SG) contributions
- voluntary employer contributions such as salary sacrifice contributions that you choose to make from your before-tax income
- personal tax-deductible contributions – for example, the ones you make if you're self-employed (note that from 1 July 2017, all eligible contributors will be able to make personal tax-deductible super contributions).

These contributions are usually taxed at the low rate of 15%. At the moment, you can make up to $30,000 in concessional contributions this financial year if you were under 49 at 30 June 2016 or $35,000 if you were older. But from 1 July 2017, an annual cap of $25,000 will apply for everyone.

Changes to non-concessional contributions

Also known as after tax contributions, these are contributions you make from sources that have already been taxed. They generally include:

- contributions from your take-home pay or savings, where no tax deduction has been claimed
- certain contributions made by your spouse on your behalf.

These are currently capped at $180,000 a year. Or, if you're under the age of 65 (any time during the year), you can apply the 'bring-forward' rule. This means you can make up to three years' worth of non-concessional contributions (currently $540,000) at any point during a three-year period.

The Government has reduced the annual cap to $100,000 from 1 July 2017. If you're eligible, you'll still be able to apply the bring-forward rule and contribute up to $300,000 at any time during a three-year period. This presents a significant opportunity to take advantage of the current rules which allow you to make a higher contribution (up to $540,000) before this change comes into effect.

In addition, from 1 July 2017 you'll no longer be allowed to make any further non-concessional contributions once your total super balance reaches $1.6 million.

Who can contribute to super?

Generally speaking, anyone under the age of 65 can make concessional or non-concessional contributions to their super.

If you're aged 65 to 74 you have to pass a work test before you can contribute. This means you need to have worked (for gain or reward) for at least 40 hours within a 30 day period to be able to contribute for that financial year.

If you're 75 or over, you're usually not able to make voluntary contributions to super.

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These eligibility rules don't apply to your employer's compulsory contributions (e.g. their SG contributions). They can be made at any time, regardless of your age.

What happens if you go over the caps?

These penalties apply if you exceed the super contributions caps:

- **Concessional contributions:** The amount of your excess contributions are included in your assessable income and effectively taxed at your marginal tax rate. You'll also have to pay an interest charge. You can also choose to withdraw up to 85% of any excess concessional contributions, although if you choose not to withdraw them, the excess amount will also count towards your non-concessional contributions cap.
- **Non-concessional contributions:** You can choose to withdraw the excess amount of super and 85% of an 'associated earnings amount', which is what your excess contributions are deemed to earn while in your super account. The total amount of associated earnings will be included in your assessable income and taxed at your marginal rate, with a 15% offset. Otherwise, if you don't withdraw the excess amount, it will be taxed at 49%.

Get the right advice

If you're using the current contributions caps to boost your super, the Government's changes to super rules could have a significant impact on your retirement planning. That's why you should speak to a financial adviser, who can review your situation and build a strategy to help you get the most out of your super contributions.

SPEAK TO US FOR MORE INFORMATION

Speak to us if you would like to understand more about how this information might impact your financial situation.

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