**Impact of 1 July 2017 changes to superannuation on SMSFs**

**Marcus Evans looks at super changes and what advisers need to know when dealing with SMSFs.**

On 1 July 2017, the biggest changes to superannuation rules in 10 years will come into effect. They touch on everything from super contributions to pension drawdowns.

These changes are complex and could have a big impact on retirement planning for self-managed superannuation funds (SMSFs). As a result there are a number of strategies and issues that advisers need to consider now before the new rules go live on 1 July.

**Related News:**

* [Impact of 1 July 2017 changes to superannuation on SMSFs](http://www.moneymanagement.com.au/node/39404)
* [The benefits of going global](http://www.moneymanagement.com.au/node/39300)

Further, on 23 March, the Treasury Laws Amendment (Fair and Sustainable Superannuation) Regulations 2017 were registered to support the introduction of the Government’s superannuation reforms. The Australian Tax Office (ATO) has also now finalised the practical compliance and law companion guidelines on the tax and super reforms.

Still, the changes present some complexities for advisers to take into account when providing guidance for their SMSF clients.

### CONCESSIONAL (PRE-TAX) CONTRIBUTIONS

One of the major changes to superannuation will be the changes to caps on concessional (pre-tax) contributions. SMSFs have until 30 June 2017 to make extra concessional super contributions under the current caps which are $30,000 for those who are under 49 years of age at 30 June 2016, and $35,000 for those who are older. All concessional, (pre-tax) superannuation contributions will be capped at $25,000 per annum when the changes to caps take effect from 1 July 2017.

### NON-CONCESSIONAL (AFTER TAX) CONTRIBUTIONS

From 1 July 2017, the annual non-concessional contribution cap will be reduced from $180,000 to $100,000 for clients with a total super balance of less than $1.6 million. Where a client’s total super balance is $1.6 million or more, their non-concessional contribution cap will be reduced to nil.

SMSFs have until 30 June 2017 to make use of the current, higher non-concessional (after tax) contributions cap of $180,000 a year, before it is reduced to $100,000. If eligible, they can also take advantage of the current bring-forward rule and contribute up to $540,000 in non-concessional contributions.

There is no change to the current bring-forward rule which allows a window of up to two years of future after tax contributions to be contributed except that from 1 July this bring-forward cap will reduce to $300,000.

Given that clients with a total balance of $1.6 million or more from 1 July will not be able to contribute further non-concessional contributions in future years, this year may be their last opportunity to make these contributions depending on the future total balance in their fund.

The bring-forward rule will however, be limited when total super balances are between $1.4 million and $1.6 million in terms of the number of years that contributions can be brought forward.

### TOTAL SUPER BALANCE

A client’s total superannuation balance will generally be calculated as the sum of:

* The market value of all of their accumulation funds;
* The market value of all of their account based income streams;
* The total value of all non-account based income streams; and
* The value of any benefits “in transit” between funds.

### TRANSFER BALANCE CAP

From 1 July, a new transfer balance cap will apply to limit the amount of benefits a client can transfer from the accumulation phase to support retirement phase income streams. In effect, this limits the benefits a client can receive from the tax-free retirement phase.

The balance of existing retirement phase income streams at 30 June 2017 and the initial value of new income streams commenced after 1 July 2017, will be measured against an individual’s personal transfer balance cap.

Any amounts in excess of the cap will need to be rolled back to the accumulation phase or withdrawn from the superannuation system with tax penalties often applying if the cap is exceeded.

Importantly, this cap includes the value of the existing retirement income streams at 30 June 2017, so SMSFs will need to make sure their total retirement income stream balances don’t exceed $1.6 million by that date.

At this point it’s worth reviewing some definitions around the transfer balance cap:

* **General transfer balance cap:**Set at $1.6 million for 2017 to 2018 and indexed annually with increases in the consumer price index (CPI) and moving in increments of $100,000;
* **Personal transfer balance cap:** Initially equals the general cap in the year a client starts a retirement phase income stream but may differ over time due to proportional indexation; and
* **Transfer balance account:**Will be introduced from 1 July and will work like a general ledger with amounts being debited and credited depending on the client’s circumstances.

Amounts credited to the transfer account are commonly:

* The value of all existing retirement phase income streams as at 30 June and commencement value of any new superannuation retirement phase income streams from 1 July 2017 (including new super death benefit streams and deferred super income streams); and
* The value of any reversionary super income streams. Note – the credit only arises 12 months after the original recipient’s date of death.

Amounts debited to the transfer account are commonly:

* The value of any lump sums commuted from a retirement phase income stream; and
* The value of any structured settlement contributions made.

It is important to note that once a retirement income stream has started, any increase in the value of the pension due to investment returns will not be treated as a credit to the member’s transfer balance account.

This means where a client is close to the cap it may be beneficial to start retirement phase income streams as soon as possible as any growth that occurs will not result in the client exceeding their cap.

It is also important to note that pension payments and negative returns do not count as debits, making it important for advisers to check the value of the transfer balance cap before they recommend the commencement of any retirement phase income stream.

### TRANSITIONAL CGT RELIEF

SMSFs may need to transfer part of their retirement income stream back to accumulation prior to 1 July 2017 to comply with the introduction of the $1.6 million transfer balance cap. Transitional capital gains tax (CGT) relief may allow the SMSF to elect to reset the cost base of one or more of the fund’s eligible impacted assets.

**"The changes present some complexities for advisers to take into account when providing guidance for their SMSF clients."**

The rules are complex, and further guidance was recently outlined in the Practical Compliance and Law Companion Guidelines on the tax and super reforms released by the ATO.

Financial and tax advisers will need to assess the SMSF’s individual situations to ensure they can smoothly transition and meet the requirements of the new regime.

### TTR TO ACCOUNT BASED PENSION SWITCHING

From 1 July 2017, earnings on assets supporting a transition-to-retirement (TTR) pension will no longer receive a tax exemption and will be taxed at the accumulation rate of 15 per cent. Therefore, if the SMSF already has a

TTR pension and they meet a full condition of release, it may be worth them considering moving to a normal account based pension.

For example, a person who is over 60 who has ceased an arrangement of gainful employment after attaining that age will have satisfied a retirement condition of release and may convert their TTR pension to an account based pension.

Earnings on assets supporting TTR pensions will become taxable at up to 15 per cent, while earnings on assets supporting account based pensions will remain tax free. It is therefore important to consider whether converting a TTR pension to an account based pension would provide a better outcome.

### REVIEW THE SMSF’S ESTATE PLAN

The changing superannuation landscape is a good time to consider the potential effect of the changes on death benefits if the SMSF member were to pass away, and to make sure they have appropriate, up-to-date death benefit nominations or reversionary pension nominations in place.

If beneficiaries are not considered dependants for tax purposes, they may also wish to consider a withdrawal and re-contribution strategy (if eligible) to boost their tax free component.

Related to this are the changes to the tax and regulatory treatment of superannuation death benefits paid as income streams. One impact to be considered is whether the commencement or reversion of a death benefit income stream will cause a client to breach their transfer balance cap. In these cases the client will not be able to transfer the excess back to the accumulation phase but will be forced to have the excess exit the superannuation system.

### OTHER SUPERANNUATION REFORMS

Small funds prohibited from using segregated assets

From 1 July 2017, SMSFs and small Australian Prudential Regulation Authority (APRA) funds will be prohibited from using the segregated assets method where:

During the year there is at least one retirement phase interest in the fund such as an account-based pension; and

Any member has a superannuation balance of $1.6 million and is receiving a retirement phase income stream (from any fund).

#### Low income super tax offset

The low income super contribution will be abolished from 1 July 2017 and replaced by a low income superannuation tax offset which essentially continues the same concession if the individual has an adjusted taxable income of $37,000 or less and provides for a Government contribution of 15 per cent of the first $3,333 of concessional contributions up to a maximum of $500.

#### Anti-detriment provision removed

This provision currently allows some superannuation funds to claim a tax deduction for a portion of the lump sum death benefits they pay to eligible dependants, essentially allowing a larger death benefit to be paid. That deduction will no longer be available either where the deceased member dies on or after 1 July 2017, or for death benefits paid on or after 1 July 2019.

#### The opportunity for professional help

The changes are not only complex, but their impact could be substantial and the range of outcomes is highly dependent on the SMSF’s individual situation. As such, it provides advisers with an enormous opportunity to provide significant benefit to their SMSF clients between now and 30 June.

Marcus Evans is head of SMSF customers at Commonwealth Bank.

Simon Blanchflower is head of Asia Pacific at Altrinsic Global Advisors.