Manildra Flour Mills Retirement Fund

Notice to Members

Changes to Legislation From 1 July 2017

Background

In its May 2016 budget the Federal Government announced that certain changes would be made to the laws governing superannuation. The Government's stated aim is to improve the sustainability, flexibility and integrity of the superannuation system.

After consultation with various stakeholders, including the superannuation industry, amendments were made to the Government's original proposals and in November 2016 legislation was passed by Parliament. This notice explains the relevant aspects of the changes and how they may affect members of the Fund.

New Contribution Caps

Concessional Contributions

The annual cap for concessional contributions will be $25,000 for all individuals, regardless of their age. The cap is subject to proportional indexation on an annual basis in $2,500 increments in line with Average Weekly Time Earnings (AWOTE).

Concessional contributions in excess of the cap will be included in the individual's assessable income and taxed at their marginal tax rate.

Concessional contributions are those made by your employer and include superannuation guarantee contributions, additional employer contributions and salary sacrifice contributions.

For individuals with a superannuation balance of less than $500,000 any unused concessional contributions cap amounts can be accessed on a rolling basis for five years. Any unused concessional contributions will expire after five years. This particular change will come into force from 1 July 2018.

Non-Concessional Contributions

The annual non-concessional contributions cap will be $100,000 for all individuals. For individuals aged under 65 a three year "bring forward" is available so that non-concessional contributions of $300,000 may be paid in a year but then no further non-concessional contributions may be made in the next two years. If an individual's total superannuation balance exceeds $1.6 million at the start of a financial year (i.e. 1 July) then no non-concessional contributions may be made in that financial year. This cap is not subject to indexation.

Non-concessional contributions are those made from after tax salary or from personal savings.

Additional Tax for Higher Income Earners

The income tax threshold above which individuals must pay an additional 15% on their concessional contributions will reduce from $300,000 to $250,000 per annum. For the purposes of this threshold the concessional contributions will be included.

As an example, if an individual's annual salary was $240,000 and their concessional contributions were $25,000 then the total of these two items is $265,000. Because this is greater than $250,000 an additional 15% tax would be payable on the $15,000 concessional contributions that are in excess of the threshold. If the individual's annual salary was over the threshold of $250,000 then the 15% tax would be payable on all of the concessional contributions up to the concessional contributions cap. As noted earlier concessional contributions in excess of the cap will be included in the individual's assessable income and taxed at their marginal tax rate

Pension Transfer Balance Cap

The total amount that may be transferred into a pension in the retirement phase (i.e. it is not a transition to retirement pension) over the life time of an individual will be limited to a transfer balance cap. At 1 July 2017 this cap will be $1.6 million. If you already have a pension account then your initial transfer amount will be your balance in the account as at 1 July 2017.

The cap is subject to proportional indexation on an annual basis in $100,000 increments in line with the Consumer Price Index (CPI).

In order to manage compliance with the cap the Australian Taxation Office will maintain a Transfer Balance Account for each individual with a superannuation pension account in the retirement phase. This account will have the following credits:

1. If you have one or more pension accounts as at 1 July 2017 then the sum of the pension account balances at 1 July 2017;
2. For a pension starting on or after 1 July 2017, the amount on the pension commencement date used to commence the pension;
3. Any earnings on a daily basis of any excess transfer balance (i.e. any Transfer Account Balance in excess of the cap) at the end of any day.

The Transfer Balance Account may be debited with the following:

1. The balance of any pension account that is commuted to a lump sum;
2. A structured settlement contribution (e.g. for personal injuries);
3. A payment split under family law;
4. A reduction in benefits due to a loss by a superannuation provider or because of fraud or dishonesty;
5. If the pension stops being in the retirement phase;
6. A notice is received from the Commissioner of Taxation in respect of a non-commutable excess transfer balance.

Items 2, 4, 5 and 6 are rare events.

Note that regular and irregular pension payments are NOT debits from your Transfer Balance Account. You cannot transfer money into a pension account to replace pension payments (unless your Transfer Balance Account is below the cap).

If an individual's Transfer Balance Account exceeds the transfer balance cap then the amount of the excess must be either paid out of the superannuation system or transferred back into an accumulation account. There is a transitional arrangement such that if the Transfer Balance Account on 1 July 2017 holds between $1.6 million and $1.7 million then the individual has six months to reduce the amount to $1.6 million (or less).

Importantly, the cap is a transfer cap and not a balance cap. If the total balance of your pension accounts after 1 July 2017 grows because of investment earnings and consequently exceeds the cap then there is no requirement to reduce the balance. Similarly, even if the balance reduces because of draw-downs and/or investment losses the individual may transfer money to a pension account only if that individual's Transfer Balance Account has not reached the cap.

The cap applies to the total amount of superannuation that has been transferred to a pension product regardless of whether the transfer was to a single account or to multiple accounts i.e. it is not $1.6 million for each account.

There are special rules for defined benefit pensions and death benefits for dependants who are children.

Transition to Retirement Pensions

The term "retirement phase" has been introduced into the legislation. Where a superannuation income stream is paid to a beneficiary who is in the retirement phase of their life, as opposed to the accumulation phase, no tax is payable on the investment income of that income stream.

Individuals who have reached their preservation age and have not retired or attained age 65 may commence a Transition to Retirement Pension. Up until now income earnings on assets supporting these pensions has been tax exempt. From 1 July 2017 the investment earnings on Transition to Retirement Pensions will be taxed at 15%, the same rate that applies to income on earnings from assets supporting accumulation accounts.

As part of this change, individuals who have not satisfied a condition of release will no longer be able to treat payments from a pension account as lump sums for tax purposes.

Low Income Superannuation Tax Offset (LISTO)

This change effectively replaces the Low Income Superannuation Contribution (LISC) previously offered by the Government.

The aim of this benefit is to ensure that an individual's tax rate on superannuation contributions is no more than the individual's marginal income tax rate.

An individual is eligible for a LISTO if the annual adjusted taxable income of the individual is less than $37,000.

The amount of the LISTO is 15% of the individual's concessional contributions in a financial year subject to a minimum of $10 and a maximum of $500.

Tax Offsets for Spouse Contributions

The eligibility rules for claiming the tax offset for spouse contributions will be extended from 1 July 2017.

An individual is entitled to the offset if:

1. Their spouse's adjusted taxable income is less than $40,000 (previously $13,800);
2. Their spouse's non-concessional contributions for the tax year have not exceeded the non-concessional cap; and
3. Their spouse's total superannuation balance is less than $500,000.

The maximum amount of the offset is 18% of the lesser of:

1. The spouse contributions made by the individual; and
2. $3,000 reduced by the amount (if any) by which the spouses adjusted taxable income exceeds $37,000.

The maximum tax offset is $540.

Deductible Personal Contributions

This measure would assist individuals who are self-employed or whose employer does not allow salary sacrifice contributions.

An individual under age 75 may claim a tax deduction for personal contributions regardless of the percentage of their income that is earned as salary or wages (previously the deduction only applied where there was a maximum of 10% of total income earned as salary or wages). Such contributions are treated as concessional contributions and, therefore, count towards the concessional contributions cap and are subject to tax at 15% in the superannuation fund to which they are paid.

Repeal of Anti-Detriment Provisions

Since 1 July 1988 superannuation funds have been able to enhance death benefits due to be paid in certain circumstances. The aim of the provisions was to compensate beneficiaries for any reduction in death benefits due to the introduction of tax on employer contributions.

These provisions will no longer be law from 1 July 2017.

Disclaimer

This Notice to Members contains general factual information only and has been prepared without taking into account your individual objectives, financial situation or needs. Before acting on the contents of this document, you should consider whether it is appropriate to you, having regard to your objectives, financial situation and needs.
You should obtain advice from a licensed financial adviser before making any decisions about your superannuation. Neither the Trustee nor your Employer is licensed to provide you with any financial advice.

This Notice to Members was prepared by Manildra Flour Mills Retirement Fund Pty Limited (ABN 74 065 680 195), the Trustee of the Manildra Flour Mills Retirement Fund (ABN 32 448 411 930) ("the Fund").