INFORMING

YOU

ARE YOU READY FOR THE CHANGES TO SUPER CONTRIBUTION CAPS?

As part of the 2016 Federal Budget and subsequent announcements, the Government has proposed significant changes to super contribution rules. Although these changes haven't yet become law, it's worth noting how the new rules affect you from 1 July 2017.

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, so they can enjoy a comfortable retirement.

In this year's Federal Budget announcement, Treasurer Scott Morrison outlined plans to reform our super system to make it fairer and more effective. In particular, the government is looking to reduce the caps for concessional and non-concessional super contributions.

It's important to note that these proposals have not yet been legislated and are still the subject of debate among the major parties. But still, it's worth knowing what the changes are likely to be and impact it may have to your financial strategy, which may include considering making higher Non Concessional Contributions before 1 July 2017.

Changes to concessional contributions

Pre-tax or concessional super contributions are the contributions you make before paying any tax on them.

They include:

- contributions from your employer, such as Super Guarantee (SG) payments
- salary sacrifice payments that you choose to make from your before-tax income
- personal concessional contributions – for example, the ones you make if you're self-employed.

These contributions are usually taxed at the low rate of 15%.

At the moment, you can make up to $30,000 in concessional contributions in a financial year if you're under 50 or $35,000 if you're 50 or older. However, the government is proposing an annual cap of $25,000 for everyone from 1 July 2017.

Changes to non-concessional 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, 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.

It's likely that the annual cap will be reduced to $100,000 per year from 1 July 2017. If the current

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proposal is passed by Parliament, 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.

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 work at least 40 hours within a one-month period to be able to contribute for that financial year. Also, people aged 65 and over still won't be able to apply the bring-forward rule for non-concessional contributions.

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

These eligibility rules don't apply to your employer's compulsory Super Guarantee payments. 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 contribution caps:

- **Concessional contributions**: The amount of your excess contributions are included in your assessable income and you'll have to pay an interest charge. If you then choose not to withdraw your excess contributions, the excess amount will also count towards your non-concessional contributions cap.
- **Non-concessional contributions:** You can choose to withdraw the excess amount super and 85% of an 'associated earnings amount', which is what your excess contributions earned 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 contribution caps to boost your super, the government's proposed changes 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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