FEDERAL BUDGET 2016/17 - PROPOSALS NOW LAW

JUNE 2017

Since the last Federal Budget was delivered in May 2016, the Government made some changes to the original proposals announced for super. The 2016/17 Budget measures include a number of super and taxation reforms which are now law and will start from 1 July 2017 (unless stated otherwise in this update). These super rules are complex and we recommend that you seek financial and tax advice with respect to any of these changes which may impact you.

SUPERANNUATION

Reduced concessional contributions cap

From 1 July 2017, the annual concessional contributions cap will reduce to $25,000 regardless of your age (currently it is $35,000 if you are aged 50 or more at 30 June 2017 and $30,000 if you are aged less than 50 at 30 June 2017). The cap will be indexed and increase in increments of $2,500 in line with average weekly ordinary time earnings (AWOTE). The cap will be indexed and increase in increments of $2,500 in line with average weekly ordinary time earnings (AWOTE).

What does this mean?

If you are considering topping up your super, you have up until 30 June 2017 to take advantage of the current higher concessional contributions cap. Concessional contributions include employer contributions, salary sacrifice contributions and personal contributions claimed as a tax deduction.

Catch-up concessional contributions

From 1 July 2019, you may be eligible to make additional concessional contributions above the standard annual concessional contributions cap (refer above) if:

- in a financial year from 2019/20, you have not fully utilised the concessional contributions cap for one or more of the previous five financial years (these are known as unused amounts); and
- your total super balance is less than $500,000 on 30 June of the previous financial year.

Your ‘unused amounts’ start to accrue from 1 July 2018 and can be carried forward on a five year rolling basis.

Your ‘total super balance’ is generally made up of the balance of all of your super and retirement income stream accounts (special values may apply for certain income streams), reduced by any contributions relating to personal injury structured settlements.

This Budget measure also applies to defined benefit members.

What does this mean?

From 1 July 2019, the maximum amount of concessional contributions that you can make in a financial year:

- is equal to your concessional contributions cap for that financial year; plus
- the total of your unused amounts (that have accrued from 1 July 2018) and relate to the previous five financial years.

If you have had a large capital gain, broken work patterns or have moved to working more hours (for example from part-time to full-time) and have unused amounts, then this new opportunity may help give your super a boost by making additional concessional contributions. With more individuals becoming eligible to make personal deductible contributions from 1 July 2017 (refer to the next page), this is a particularly great opportunity for members to consider making personal deductible contributions to take advantage of any unused amounts that they have accrued.

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Reduced non-concessional contributions cap

From 1 July 2017, the annual non-concessional contributions cap will significantly reduce to $100,000 from $180,000.

If you are under age 65 at the start of a financial year, you should note that the two years bring forward amount that can be contributed over any three year period will also significantly reduce from $540,000 (2016/17) to $300,000 (2017/18). From 1 July 2017, the ability to use the bring forward rule is also impacted if your total super balance is at least $1.4 million but less than $1.6 million (refer to the section below).

What does this mean?
If you are considering topping up your super, you have up until 30 June 2017 to take advantage of the current higher non-concessional contributions cap. Non-concessional contributions include your personal contributions (not claimed as a tax deduction) and spouse contributions made on your behalf. If you have brought forward your non-concessional contributions within the previous two financial years, you can only contribute any residual amount without breaching your non-concessional contributions cap.

Non-concessional contributions – super balances $1.4 million or more

From 1 July 2017, if your total super balance is $1.6 million or more at 30 June of the previous financial year, then you cannot make non-concessional contributions in that financial year. The two years bring forward rule (refer to the section above) is also impacted where your total super balance is at least $1.4 million but less than $1.6 million, refer below for details:

Total superannuation balance on 30 June 2017	Maximum non-concessional contributions cap for the first year	Bring-forward period
Less than $1.4 million	$300,000	3 years
$1.4 million to less than $1.5 million	$200,000	2 years
$1.5 million to less than $1.6 million	$100,000	No bring-forward period, the standard non-concessional contributions cap applies
$1.6 million	Nil	N/A

What does this mean?

If this Budget measure will impact you, then you may wish to consider topping up your super by making non-concessional contributions by 30 June 2017. From 1 July 2017, if you have a higher super balance you may also wish to consider accumulating wealth for your retirement in a non-super environment, for example, managed investments, unit trusts and investor directed portfolio service (IDPS) products. To manage your total super balance and the transfer balance cap (refer to the next page), couples may also consider making spouse contributions (refer to the next page for tax offset details) and contribution splits on behalf of their spouse with the lower super balance.

Personal contributions claimed as a tax deduction by more than self-employed

Currently, you are only eligible to claim a tax deduction for personal contributions if you earn less than 10 per cent of your income from employment. This substantially self-employed test will no longer be a requirement from 1 July 2017 and anyone who is eligible to contribute may be able to claim an income tax deduction for their personal contributions.

What does this mean?

From 1 July 2017, more individuals (this may include you) will be able to claim a tax deduction for their personal contributions which can be a great tax incentive if they are considering topping up their super. If you have a salary sacrifice arrangement in place you may wish to review this as it may no longer be your most effective strategy for contributing to your super.

If you are a defined benefit members of Corporate Super, then from 1 July 2017, we will no longer be able to accept your requests for tax deductions for your personal contributions (unless this is made to your accumulation account).

New low income super tax offset (LISTO) contribution

Eligible individuals with an annual adjusted taxable income of $37,000 p.a. or less will receive a boost to their super with a LISTO contribution from the Government. If you are eligible, the LISTO contribution will be equal to 15% of your total concessional contributions for an income year, capped at $500. The LISTO replaces the current low income super contribution (LISC) that ceases on 30 June 2017.

Spouse contribution tax offset to become more available to couples

The low income spouse contribution tax offset will be made available to more couples making a contribution on behalf of their low income or non-working spouse (aged less than 70), including a defacto partner. A maximum tax offset of up to $540 p.a. will be available where your spouse has an income of $37,000 p.a. or less (currently this is $10,800 p.a. or less). To receive the maximum tax offset requires you to make a contribution of at least $3,000 on behalf of your spouse. The offset will gradually reduce if your spouse's income is above $37,000 p.a. and cuts out at an income of at least $40,000 p.a. (currently this cuts out at an income of at least $13,800 p.a.).

What does this mean?

If you are part of a couple where the other partner has an income below $40,000 p.a., then you may consider making a spouse contribution(s) on their behalf from the 2017/18 financial year onwards to obtain the spouse contribution tax offset (if eligible).

Reduced Division 293 tax threshold for high income earners

If your adjusted annual taxable income (including total concessional contributions less any excess concessional contributions) is greater than $250,000 p.a., then your concessional contributions above this threshold will be subject to an additional 15% tax (Division 293 tax). The threshold is reducing from $300,000 p.a. This additional tax means that you will pay a maximum of 30% tax on your concessional contributions above the threshold. This Budget measure also applies to members of defined benefit funds but different rules apply to the calculation of this tax for defined benefit members.

Super work test still applies from 1 July 2017

The work test (40 hours over 30 consecutive days within the financial year) will continue to apply from 1 July 2017 for voluntary contributions or to receive spouse contributions from age 65.The Government will no longer proceed with their proposal to abolish the work test.

New $1.6 million transfer balance cap – retirement income phase

If you are retired or about to retire, from 1 July 2017, the total amount of super benefits that you will be able to transfer into the retirement phase will be capped at $1.6 million. Investment earnings are currently tax free in the retirement phase.

If you are already retired and currently receiving a retirement income stream(s), then your existing retirement income stream(s) will be assessed against the cap based on your total balances as at 30 June 2017.

If you exceed the cap, you will be required to rectify the breach by removing the excess amount (and certain notional earnings on this amount) from your retirement income stream. You will also be liable to pay a penalty tax on your total notional earnings (based on the general interest charge) attributable to the excess amount until the breach is rectified.

Certain non-commutable lifetime pensions, lifetime annuities, term pensions and term annuities have special values counted towards the transfer balance cap. Tax implications may apply to income stream payments that exceed $100,000 for these types of income streams. Generally, non-commutable income streams do not allow lump sum withdrawals or the benefits to be rolled back to accumulation.

You should also note that transition to retirement (TTR) income streams do not count towards the transfer balance cap.

What does this mean?

To rectify the breach, the excess amount (and certain notional earnings on this amount) can be transferred back to a super accumulation account where the earnings on the excess will be taxed at 15%. Alternatively, the excess amount may be paid out to you as a lump sum. However, this rectification action will not be possible if you are receiving a non-commutable income stream (including a defined benefit pension).

You should consider rectifying your breach prior to 1 July 2017 if you are receiving a retirement income stream, otherwise a penalty tax may be applied. However, if the excess amount is $100,000 or less you have until 31 December 2017 to rectify this before the penalty tax is applied.

Transition to retirement income streams

From 1 July 2017, earnings from assets supporting a transition to retirement (TTR) income stream will be taxed up to 15% and will no longer be tax-free. Members of TTR income streams will also not be able to treat their super income stream payments as lump sum payments for taxation purposes.

What does this mean?

You should inform your income stream provider as soon as you have satisfied a condition of release, including permanently retiring from the workforce or reaching age 60 and ceasing gainful employment, so that your TTR income stream may then be converted to an account based income stream where the earnings on the assets supporting the income stream will be tax exempt.

You will see tax adjustment transactions on your 2017/18 Annual Statement for your TTR income stream (for example OneAnswer Pension) to account for the tax that is being paid on earnings from 1 July 2017.

You should decide whether a TTR income stream is still appropriate for you after 30 June 2017, by discussing this strategy with your financial adviser and tax adviser.

Anti-detriment payments abolished

The anti-detriment payment on death benefits from super is abolished where the death occurs from 1 July 2017. If the death occurs before 1 July 2017, the death benefit payment must be made before 1 July 2019 to receive the anti-detriment payment. The anti-detriment payment represents a refund of the tax paid on super contributions by the late member, where the death benefit is paid to their spouse, former spouse or child.

TAXATION

Increase in personal tax threshold

The Government increased the 32.5% personal income tax threshold from $80,000 to $87,000 from

1 July 2016.

ANY QUESTIONS?

If you have any questions or require further information, please:

- speak with your financial adviser
- call Customer Services on 133 665, weekdays between 8.30am and 6.30pm (AEST)
- email customer@onepath.com.au

onepath.com.au

OnePath Funds Management Limited (ABN 21 003 002 800, AFSL 238342)

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