CTC ACCOUNTANTS
TAX & BUSINESS SERVICES

SMSF NEWSLETTER

June 2016

SPECIAL POINTS OF INTEREST:

1. **2016-17 Federal Budget questions and answers**
2. **Making sure you get it right by 30 June**

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Q & A – THE 2016-17 FEDERAL BUDGET

The volume and significance of the superannuation changes announced in the 2016-17 Federal Budget prompted questions from our readers, particularly with regards to the pension transfer cap and the lifetime non-concessional contributions limit. We discuss some of these questions below.

INFO–The changes are not yet law. The answers are our 'best guess' of how the changes could potentially apply if legislated as proposed.

Transfer balance cap

The 2016-17 Federal Budget proposed that the maximum transfers to pension phase be capped to $1.6 million (indexed) from 1 July 2017. This is intended to limit the level of fund earnings that will be tax exempt.

Question 1 – I am 62 and drawing a pension; will pension payments be subject to tax from 1 July 2017?

Unlikely, the proposed changes do not alter how a lump sum or pension payment is taxed in your hands.

Question 2 – Will I still be permitted to draw down a lump sum if I have retired or reached age 65?

Probably, the Budget made no mention of altering conditions of release. Therefore, it is likely that the law will continue to permit lump sum draw downs upon meeting a full condition of release (e.g. if you have either retired or attained age 65).

Question 3 – If my spouse dies and their pension continues (i.e. 'reverts') to me – will this pension count towards my cap?

At this stage, it is too early to tell whether a pension that continues to be paid to you as the surviving spouse will count towards your transfer balance cap.

Question 4 – I am currently drawing down a pension with a balance over $1.6 million – will I be affected?

Probably, the Treasurer stated that existing members in pension phase with balances above $1.6 million at 1 July 2017 will need to reduce their pension balances to $1.6 million by this time (e.g. by transferring the excess back to accumulation phase).

Lifetime cap

The Budget proposed a lifetime non-concessional contributions cap of $500,000 (indexed) from 3 May 2016. If legislated, this new cap will replace the existing non-concessional contributions cap (i.e. $180,000, or $540,000 under the three year bring-forward rule).

Under the proposal, non-concessional contributions made since 1 July 2007 will count towards the cap. If you exceed the cap at 3 May 2016, the announcement states that you will not need to withdraw the excess.

Question 1 – How is indexation of the cap expected to work?

The lifetime cap is expected to be indexed, and increase in $50,000 increments.

Question 2 – Can I make extra non-concessional contributions by 30 June 2016 even though I exceed my $500,000 cap at 3 May 2016?

Although the changes are not law, you run the risk of incurring additional taxes on non-concessional contributions made after 3 May 2016.

Question 3 – I am divorced and the Family Court has ordered that my entire superannuation balance be split to my spouse. Will I get a new cap?

It is too early to tell whether special exceptions will be introduced to cater for these sorts of situations.

"...the ATO considers that the contribution is generally 'made' when the amount is credited to your SMSF bank account"

"...don't forget to round the payment to the nearest $10 when calculating the minimum pension payment"

LAST MINUTE COMPLIANCE TIPS

With June upon us, this is your last opportunity to ensure that any compliance issues for the 2016 income year are addressed.

Concessional contributions – timing issues

The timing of a concessional contribution (e.g. superannuation guarantee and salary sacrificed contributions) is a key element to determining which income year the contribution will count towards your concessional contributions cap.

In this regard, a concessional contribution generally counts towards your cap in the year it is 'made'. For contributions made by electronic funds transfer (EFT), the ATO considers that the contribution is generally 'made' when the amount is credited to your SMSF's bank account.

Therefore, concessional contributions credited to your fund's bank account after Thursday, 30 June 2016 will **not count** towards your 2016 cap.

The following table clarifies when a concessional contribution is taken to be made:

Superannuation contribution type	Counts against your cap for 2016 income year?
Contribution accrued in the business books by 30 June 2016, but not yet paid	**No** – the contribution must be physically paid to the fund by 30 June 2016
Contribution received by a clearing house on 30 June 2016, but credited to the fund's bank account in July 2016	**No** – your fund has not received the contribution by 30 June 2016 (no allowance is made for this situation)
EFT processed but not cleared to the SMSF bank account until 1 July 2016	**No** – your fund has not received the contribution by 30 June 2016
Employer makes your June 2016 superannuation payment in July 2016	**No** – your fund has not received the contribution by 30 June 2016
Contribution received by the ATO's Small Business Clearing House by 30 June 2016 but not received by the fund until July 2016	**No** – your fund has not received the contribution by 30 June 2016 (no special rules apply to the ATO's clearing house)

INFO–Similar timing issues discussed above also apply to non-concessional contributions. Note, the Government has proposed a lifetime cap of $500,000 (indexed), effective from 7.30pm 3 May 2016.

Getting pension payments right

If your SMSF commenced paying you a pension before 1 June 2016, ensure that your fund makes the minimum pension payment by 30 June 2016.

Key points to note about the minimum pension payment for account-based pensions and transition to retirement income streams are:

- your SMSF cannot meet the minimum pension payment requirement by 'book entry' – physical payment (e.g. by EFT) is required by 30 June 2016;
- don't forget to round the payment to the nearest $10 when calculating your minimum pension payment; and
- pro-rata the minimum pension payment if you commenced the pension during the 2016 income year on a day other than 1 July (e.g. you started the pension on 1 January 2016).

Transition to retirement income stream – maximum payment

An additional restriction imposed on the transition to retirement income stream is an annual 10% cap on the maximum pension payment (exceptions apply).

Points to note about this cap are:

- the 10% annual cap is fixed – it is **not** pro-rated if your pension commenced on a day other than 1 July during the year, nor does the cap vary with age; and
- the cap is not rounded.

WARNING–Ensure that you correctly calculate and pay at least the minimum pension payment to avoid losing the tax exemption for fund earnings on pension assets. Likewise, do not exceed the 10% cap for a TRIS otherwise additional taxes and penalties may apply.

Contact Us

ctc@ctcaccountants.com.au

www.ctcaccountants.com.au

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND