Superannuation year end planning for the 2016/17 financial year

The end of the financial year always seems to crop up faster than it should. Given the impending July 2017 superannuation changes, being on top of your end of financial year planning is as important as it has ever been.

This year it is essential that you consider maximising the existing contribution limits for superannuation before they decrease on 1 July 2017. While maximising contributions should be front of mind it is imperative you don't forget your other obligations as trustee of your SMSF and ensure that your SMSF stays on track!

Decreased concessional contributions cap

For anyone who was under 49 years of age on 30 June 2016 the maximum amount of concessional (tax deductible) contributions that can be made to superannuation without penalty is $30,000. However, for anyone who is at least 49 years of age or older on 30 June 2016 the maximum amount is $35,000. This includes amounts your employer may make as compulsory super and salary sacrifice contributions as well as any personal deductible contributions you may have made if you qualify.

From 1 July 2017, this cap will fall to $25,000 for everyone, so ensure any reserving and salary sacrifice strategies are appropriate. If you wish to maximise your contributions before June 30 make sure you talk to your professional advisor so that your salary sacrifice agreement with your employer allows the maximum to be salary sacrificed. Also ensure that all contributions are deposited with enough time so they are received by your fund before Friday 30 June 2017.

If you are older than 65 you will need to meet a work test to contribute to super in most cases. You need to work for at least 40 hours during 30 consecutive days at any time during this financial year to make tax deductible and non-deductible contributions to super.

Claiming a tax deduction for personal superannuation contributions

If you are self-employed, an investor or in receipt of a pension and receive less than 10% of your income, fringe benefits and other related payments as an employee you may be eligible for a tax deduction for personal contributions to superannuation. If you intend to claim a tax deduction make sure you are eligible to claim a deduction and seek advice if you are unsure. You need to notify the fund of the amount you wish to claim as a deduction before the end of the next financial year or the end of the day on which the individual tax return was lodged, whichever occurs first. Make sure you keep all relevant paperwork to save stress when the time comes to see your SMSF advisor.

From 1 July 2017, everyone who is eligible to make a contribution will be able to claim a tax deduction for personal superannuation contributions without needing to satisfy the 10% rule.

Making after tax contributions to super

You can make after tax contributions to super which could come from your personal savings, transferring personal investments, an inheritance or from the sale of investments. This financial year the maximum personal after tax contribution is $180,000, however, if you are under 65 years of age you can contribute up to $540,000 over a fixed three year period. This allows you to make substantial contributions to super and build up your retirement savings. The way it works is that if you are under 65 and make total after tax contributions of more than $180,000 in a financial year the bring forward rule is triggered. This allows you to make non-deductible contributions of up to $540,000 in total over a fixed three year period commencing in the year in which you contributed more than $180,000.

From 1 July 2017, this cap will fall to $100,000 per annum with a $300,000 fixed year bring forward. This also means if you triggered the bring forward rule before 2016/17 but the full $540,000 was not contributed, you will be limited to a transitional bring forward cap.

Those with a total superannuation balance of $1.6 million or more will not be able to make after tax contributions past 1 July 2017.

Beware of excess contributions tax

Anyone making large superannuation contributions should exercise extreme care for any type of contributions to avoid excess contributions penalties. This can apply to any tax deductible and non-tax deductible contributions made to super. Making sure you do not exceed the contribution caps will save you both the money and time of dealing with excess contributions tax.

Drawing superannuation pensions

If you are in pension phase make sure the minimum pension has been paid to you for this financial year. If you do not take your minimum pension, the pension account is to cease and the assets that supporting this pension are deemed to not be in retirement phase for the whole year meaning your fund will lose its tax exemption on earnings!

Drawing superannuation lump sums

Once you reach 60 years of age all lump sums from superannuation are tax free. However, before age 60 any lump sums that include a taxable component can be taxable. The taxable component includes the tax deductible contributions plus any income that has accumulated on your superannuation benefit. No tax currently is payable on taxable amounts of up to $195,000, in total, you receive prior to age 60.

If you are eligible to draw amounts from superannuation you may like to defer receiving the amount until after reaching the age of 60 or until a later financial year when you may end up paying a lower rate of tax.

SMSF fund expenses

For SMSF members in the accumulation phase, tax deductions for expenses are usually not significant, but it's important to ensure expenses are actually incurred or paid before 30 June to be deductible in the current financial year.

Preparing for the $1.6 million transfer balance cap and capital gains tax (CGT) relief

Be aware of the new $1.6 million transfer balance cap that will limit the amount you can keep in the pension phase of superannuation from 1 July 2017. This new cap will limit the assets you can have supporting superannuation pensions to $1.6 million.

You should make sure that as of 1 July 2017 you only have $1.6 million in pension phase. This may require you to roll some assets currently supporting a pension back to accumulation phase where their earnings are taxed at 15 per cent. You may be eligible for CGT relief on assets affected by the new rules.

It is essential that your plan to comply with the transfer balance cap and all relevant documentation is formulated by 30 June 2017. Minutes should be created detailing the fund members' intent to transfer assets out of retirement phase to avoid breaching the new transfer balance cap. Minutes documenting how CGT relief is intended to be undertaken should also be produced.

Rebalancing accounts between spouses

The end of financial year is also the perfect opportunity to rebalance pension accounts between spouses before the new superannuation rules take effect on 1 July 2017. As long as you have available contribution space and are eligible to withdraw, rebalancing will ensure that super balances are as even as possible and the $1.6 million transfer balance cap is maximised per member.

Transition to retirement income streams losing their tax-exempt earnings status

From 1 July 2017, superannuation fund members will lose the tax-exempt treatment of earnings on assets that support a transition to retirement pension (TTR). Members will still be able to start new or maintain existing TTRs, but they should be reviewed before 30 June in accordance with their SMSF's objective.

How can we help?

If you have any questions, require assistance or would like further clarification with any aspect of your end of year superannuation tax planning, please feel free to give me a call on 07 3012 6311 to arrange a time to meet so that we can discuss your particular requirements in more detail.