Client Newsletter

Fox & Rynne

May 2017

REFORMING THE TAXATION OF CONCESSIONAL CONTRIBUTIONS

This financial year (ie **ending 30 June 2017)** contributions of up to $35,000 are permitted for people aged 50 and over, or $30,000 for those under 50. But from 1 July 2017, the Government will lower the annual concessional contributions cap to $25,000 for **all** individuals. These limits include the 9.5 per cent compulsory super contributions made by your employer.

If there is a salary sacrifice arrangement whereby salary or wages is paid into your superannuation fund, this will need to be checked to ensure that the amount does not cause you to exceed your concessional contributions cap and attract additional tax from 1 July 2017.

Additionally, the Government will reduce the income threshold, above which individuals will be required to pay an additional 15 per cent tax (i.e. 30 per cent tax) on their concessional contributions, from $300,000 to $250,000 per annum. To be liable for a total of 30 per cent tax, individuals need to have at least $250,000 in combined income and concessional superannuation contributions.

ACCELERATED DEPRECIATION FOR SMALL BUSINESSES ENDS 30 JUNE 2017

The laws that allows small business to claim an immediate deduction for assets they start to use—or have installed ready for use—provided each depreciable asset costs less than $20 000, this measure started on 12 May 2015, and **will end on 30 June 2017**.

The deduction for primary producers for capital expenditure incurred on fencing and water facilities, and fodder storage will continue.

In the 2017 Budget it has been proposed to extend the accelerated depreciation measures until 30 June 2018.

ANNUAL NON-CONCESSIONAL CONTRIBUTIONS CAP

Until **30 June 2017,** individuals (under age 65) can make a non-concessional (after-tax) contribution of up to $540,000 under the bring-forward rule, which allows you to bring forward three years' contributions. That means couples can put up to $1.08 million into super while the opportunity lasts.

From 1 July 2017, the Government will lower the annual non-concessional (post-tax) contributions cap from $180,000 to $100,000. As is currently the case, individuals under age 65 will be eligible to bring forward 3 years ($300, 000) of non-concessional contributions. The new annual cap replaces the lifetime $500,000 non-concessional contributions cap announced in the 2016-17 Budget. Where an individual's total superannuation balance is $1.6 million or more they will no longer be eligible to make non-concessional contributions.

Transitional arrangements will apply. If an individual has not fully used their non-concessional bring forward before 1 July 2017, the remaining bring forward amount will be reassessed on 1 July 2017 to reflect the new annual caps.

INTRODUCING A $1.6 MILLION SUPERANNUATION TRANSFER BALANCE CAP

From 1 July 2017, the Government will introduce a $1.6 million cap on the total amount of superannuation that can be transferred into a tax-free retirement account. The cap will index in line with the consumer price index. This cap is per individual, not per fund.

IMPACT ON SMALL BUSINESS

Special rules will continue to allow eligible small business owners to make superannuation contributions that do not count towards their non-concessional contributions cap, where the contributions are the proceeds from the disposal of assets exempt from CGT under the 15 year exemption or the retirement exemption. Contributions made under these special rules are subject to the lifetime CGT cap ($1.415 million in 2016-17).

ALLOWING CATCH-UP CONCESSIONAL CONTRIBUTIONS

People with a total superannuation balance of less than $500,000 will be able to carry forward their unused concessional cap space amounts from 1 July 2018. Individuals will be able to access their unused concessional contributions cap space on a rolling basis for a period of five years. Amounts that have not been used after five years will expire.

Individuals aged 65 to 74 who meet the work test will be able to access these arrangements.

Introducing the Low Income Superannuation Tax Offset

From 1 July 2017, the Government will introduce the Low Income Superannuation Tax Offset.

Those with an adjusted taxable income up to $37,000 will receive a refund into their superannuation account of the tax paid on their concessional superannuation contributions, up to a cap of $500.

In effect, this means that most low income earners will pay no tax on their superannuation contributions.

Changes to Transition to Retirement Income Streams (TRIS)

The Government will remove the tax exempt status of income from assets supporting transition to retirement income streams. Individuals will also no longer be allowed to treat certain superannuation income stream payments as lump sums for tax minimisation purposes.

People can commence a transition to retirement income stream between preservation age and age 65. Individuals in receipt of transition to retirement income streams enjoy tax-free earnings on their superannuation assets. Recipients are also able to reduce their tax liability by salary sacrificing their income (that would otherwise be taxed at their marginal tax rate) into superannuation and instead taking a superannuation income stream at a concessional tax rate.

The tax exempt status of income from assets supporting transition to retirement income streams will be removed from 1 July 2017. Earnings from assets supporting transition to retirement income streams will now be taxed concessionally at 15 per cent. This change will apply irrespective of when the transition to retirement income stream commenced.

Abolishing the 10% Rule for Tax Deductible Super Contributions

Currently, an income tax deduction for personal superannuation contributions is only available to people who earn less than 10 per cent of their income from salary or wages.

From 1 July 2017, the Government will allow all Australians under 75 who make personal contributions (including those aged 65 to 74 who meet the work test) to claim an income tax deduction for any personal superannuation contribution into an eligible superannuation fund. These amounts will count towards the individual's concessional contributions cap, and be subject to 15 per cent contributions tax.

This change will allow all individuals under 75 to make concessional superannuation contributions up to the concessional cap (including those aged 65 to 74 who meet the work test). Individuals who are partially self-employed and partially wage and salary earners — for example contractors — and individuals whose employers do not offer salary sacrifice arrangements, will benefit from these changes.

To access the tax deduction, individuals will lodge a notice of their intention to claim the deduction with their superannuation fund or retirement savings provider. Generally, this notice will need to be lodged before they lodge their income tax return. Individuals can choose how much of their contributions to deduct.

Increase in the Small Business Entity Turnover Threshold

In the 2016-17 Budget, the Government announced an increase to the small business entity turnover threshold from $2 million to $10 million. From 1 July 2016, business with a turnover of less than $10 million will be able to access a range of concessions which are currently only available to business entities with a turnover of less than $2 million.

The current $2 million turnover threshold will be retained for access to the small business capital gains tax concessions. Access to the unincorporated small business tax discount will be limited to entities with turnover less than $5 million.

The Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016 Link was introduced to Parliament on 1 September 2016. The Bill was passed with government amendments by the Senate on 31 March 2017. The amended Bill is expected to be re-introduced into the House of Representatives for passage in May 2017.

Estimate Preparation

At this time of year, it is of significant benefit to prepare your taxable income and expenditure to date, and produce an estimate of income and expenditure predicted up to the end of the financial year. This process enables a more accurate assessment of the anticipated tax payable, and may enable some tax planning strategies to be implemented **prior** to 30 June 2017.

These strategies might include prepayment of expenses, purchase of equipment (under $20,000), deposits into Farm Management Deposits, or contributions to superannuation. These strategies need to executed prior to 30 June to take effect for the current financial year, so the preparation of an estimated taxable income will determine the direction we can assist you with.

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