6 STEPS TO PREPARE YOUR SMSF BEFORE 1 JULY 2017

On 1 July 2017, the biggest changes to super rules in 10 years will come into effect. They touch on everything from contributions to pension drawdowns. These changes are complex and could have a big impact on how you plan for your retirement. It's important to review your SMSF strategy now, while there is still a window of opportunity for changes before the new rules go live on 1 July.

To help you get ready, we've listed the top 6 steps you can take to prepare your SMSF. As a reminder, we've also summarised the key changes that could affect you.

BE PREPARED IN SIX STEPS

1. **Consider concessional (pre-tax) contributions**
   You have until 30 June 2017 to make extra concessional (pre-tax) super contributions under the current caps: $30,000 for those who were under 49 years of age at 30 June 2016, and $35,000 for those who are older. From 1 July 2017, everyone's cap will fall to $25,000.[1]

2. **Consider non-concessional (after-tax) contributions**
   You have until 30 June 2017 to make use of the current, higher non-concessional (after tax) contributions cap of $180,000 a year, before it's reduced to $100,000. If eligible, you can also take advantage of the current bring-forward rule and contribute $540,000 prior to 1 July 2017. Once the new rules start, this bring-forward cap reduces to $300,000.
   From 1 July, your non-concessional cap will also reduce to nil if your total superannuation balance is $1.6 million or more. Your total super balance may also reduce the cap you have available under the bring-forward rule.[1]

3. **Check your SMSF account balance**
   If your superannuation balance is close to, or more than, $1.6 million, this is a good time to think carefully about your strategy, especially if you're approaching retirement or already retired.
   From 1 July, there will be a $1.6 million transfer balance cap on the amount you can take from your super to fund a regular income stream in retirement, with tax penalties often applying if you exceed your cap.
   Importantly, this cap includes the value of your existing retirement income streams at 30 June 2017, so you'll need to make sure your total retirement income stream balances don't exceed $1.6 million by that date.

4. **Consider switching from a transitioning to retirement (TTR) pension to an account-based pension**
   If you already have a TTR pension and you now meet a full condition of release (for example, if you're over 60 and have ceased being gainfully employed since that age), it may be worth considering moving to a normal account-based pension. With earnings on assets supporting TTR pensions becoming taxable at up to 15%, while earnings on assets supporting account-based pensions remaining tax free, switching to an account-based pension could help you save — but be sure to speak to your tax adviser before you act.

5. **Review your insurance**
   With concessional contributions caps cut from 1 July, it may no longer make sense to hold insurance within your fund, especially as you get older and premiums become more expensive. Depending on your situation, it may be better to focus your contributions on building your long-term super balance, rather than paying premiums.

6. **Review your estate plan**
   This is also a good time to consider the potential effect of the changes on your death benefits if you were to pass away, as well as making sure you have appropriate, up-to-date death benefit nominations or reversionary pension nominations in place.
   If you have beneficiaries who are not considered your dependants for tax purposes, you may also wish to consider a withdrawal and re-contribution strategy (if eligible) to boost your tax free component.

THE KEY CHANGES AT A GLANCE

Here's a summary of each of the key changes that could affect you.

- **Concessional contribution caps reduced**
  The annual cap for concessional (pre-tax) contributions will be reduced to $25,000 for everyone, regardless of age — down from $30,000 for those under 49 at 30 June 2016 and $35,000 for those who are older.

- **Non-concessional contribution caps to fall**
  Your annual cap for non-concessional (after tax) contributions will fall from $180,000 to $100,000 a year. Those aged under 65 will still be able to make three years' worth of non-concessional contributions in a single year under the bring-forward rule, but at the new lower rate (up to $300,000, compared to the current maximum of $540,000).

- **No non-concessional contributions once your total super balance reaches $1.6 million**
  From 1 July 2017, once your total superannuation balance (just prior to the year) is $1.6 million or more, your non-concessional cap reduces to nil. Your total superannuation balance may also reduce the cap you have available under the bring-forward rule.

- **New transfer balance**
  The total amount of accumulated super that you can transfer into 'retirement income streams', including account-based pensions where earnings on assets are tax-free, will be capped at $1.6 million. This cap will not just apply to new retirement income streams – it will also include the current value of your existing retirement income streams at 30 June 2017.

- **New tax on earnings within transition to retirement (TTR) pensions**
  Earnings on assets supporting transition to retirement pensions will be taxed at up to 15%, instead of being tax-free.

- **Transitional Capital Gains Tax (CGT) relief**
  If you need to move part of your retirement income stream back to accumulation prior to 1 July 2017 to comply with the introduction of the $1.6 million transfer balance cap, transitional CGT relief may allow you to elect to reset the cost base of one or more of the fund's eligible impacted assets. The rules are complex, so speak with your financial adviser and tax adviser to ensure you qualify and make best use of the relief.

- **Anti-detriment provision removed**
  This provision currently allows some superannuation funds to claim a tax deduction for a portion of the lump sum death benefits they pay to eligible dependants, essentially allowing a larger death benefit to be paid. That deduction will no longer be available either where the deceased member dies on or after 1 July 2017, or for death benefits paid on or after 1 July 2019.

Getting professional help

The changes are not only complex, but their effect on you depends on your individual situation. So it's important to consider your specific circumstances and talk to a professional adviser before you act.

For more information about the changes, you can also contact our SMSF Specialist Team on **1300 27 28 29**

Source: Commonwealth Securities Limited

R J Sanderson
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