# Be super aware of changes

## New rules will apply to SMSFs from July 1

DIY SUPER

*Monica Rule*

### SUPER'S NEW RULES
### JULY 1 CHANGES

**CONCESSIONAL CAP**

- Concessional contributions are made from income that has not already been subject to income tax, such salary sacrifice payments and employer SGC contributions.
- They will be capped at $25,000 from July 1. The cap is now $35,000 for eligible people aged 49 or more, and $30,000 for younger people.
- Concessional contributions are taxed at 15 per cent on the way into the fund.

**NON-CONCESSIONAL CONTRIBUTIONS**

- Non-concessional contributions is money going into super on which tax has been paid or is not payable. These might include the net proceeds of an investment property.
- The annual maximum concessional contributions will fall on July 1 from $180,000 to $100,000.

**BRING FORWARD RULES**

- The new bring forward rules will allow someone to contribute $300,000 of non-concessional contributions over any three-year period, reflecting three lots of $100,000.
- The old bring forward rules allowed $540,000 over three years.
- Someone who has made non-concessional contributions to super either this financial year or last financial year will be subject to a mixture of old and new limits.

**CAP FITS**

- Bring forward caps and timeframes will be affected as someone's balance gets within $200,000 of $1.6 million

The term total superannuation balance and the magic number of $1.6 million are things that many superannuation fund members will come to understand as new rules hit home on July 1.

There have been plenty of articles written about the $1.6 million figure as it applies to the new transfer balance cap, which will limit how much we can have in a retirement pension account.

But little has been written about how total superannuation balances of $1.6 million or more will affect our eligibility to several other key areas of super saving and taxing.

A member's total superannuation balance is equally important as it determines what a member is entitled to and what actions they are allowed to take.

You start calculating a member's total superannuation balance by adding their accumulation account balance, retirement pension account balance and any money rolled into their SMSF that has not been allocated to either their accumulation or retirement accounts.

From this figure, you then subtract any structured settlement contributions received in their SMSF to get the total superannuation balance.

Below we look at some key areas that will be affected by the new magical figure of $1.6 million from July 1 onwards.

**Non-concessionals**

A member's total superannuation balance must be below the general transfer balance cap in order to make non-concessional contributions into their SMSF from July 1, 2017. This means, if a member's total superannuation balance is $1.6 million or above, they cannot make any further non-concessional contributions into their SMSF.

The balance is measured at June 30 of the previous year in which the contribution is made and is tested each financial year. This means, a member under the age of 65 will not be able to use any unused portion of their bring-forward non-concessional cap if their total balance is $1. 6 million or over.

As the limit is tied and indexed to the general transfer balance cap, it will increase as the general transfer balance cap increases.

> WE LOOK AT SOME KEY AREAS THAT WILL BE AFFECTED BY THE NEW MAGICAL FIGURE OF $1.6 MILLION FROM JULY 1 ONWARDS.

**Spouse offsets**

A spouse can claim a tax offset of up to $540 for making up to $3000 in non-concessional contributions for their low-income spouse. This is provided the low-income spouse's total superannuation balance does not exceed the general transfer balance cap of $1.6 million and their total non-concessional contributions received in the relevant financial year do not exceed the $100,000 annual limit.

The low-income spouse must also be under the age of 70 and meet the part-time work test if aged 65-69, and both the contributing spouse and the low-income spouse must be Australian residents for income tax purposes and not be living separately and apart on a permanent basis at the time the contribution is made.

The income threshold for the low- income spouse must not exceed $40,000 from July 1, 2017.

**Catch-ups**

The new law allows any unused concessional contributions from July 1, 2018 to be carried forward for up to five consecutive years. This is provided the member's total superannuation balance is less than $500,000.

Only unused amounts accrued after July 1, 2018 will be eligible. Amounts carried forward that have not been used after five years will expire. It is important that members maintain accurate records of contributions made into their SMSF.

**Co-contributions**

In order to be eligible for up to $500 of the Government's superannuation co-contribution from July 1, a member's total superannuation balance must be less than the applicable transfer balance cap.

The member must also not have contributed more than the $100,000 non-concessional contributions cap, their total income must be below the higher income threshold (eg $51,021 for 2016-2017) and 10 per cent of their total income is from employment-related activities, carrying on a business or a combination of both.

**Segregated**

From July 1, SMSFs will no longer be permitted to apply the segregated assets method to determine their tax-exempt income if any member has more than a $1.6 million superannuation balance and the member is in pension phase.

SMSF members must understand how their entitlements will be affected under the new total superannuation balance concept to not only avoid penalties but to also take advantage of opportunities to accumulate more for their retirement savings.

*Monica Rule is an SMSF Specialist and author of The Self Managed Super Handbook – Superannuation Law for SMSFs in plain English – monicarule.com.au.*

# Lawyers paint bleak picture of insurance advice

*Neale Prior*

You could be up for disappointment if you're expecting miracle results from the latest moves to improve the standards of advice in Australia's conflicted-riddled life insurance industry.

The Australian Lawyers Alliance has warned that life insurance commission and payment reforms that passed Federal Parliament in February do not provide any real fixes to problems created by the industry's vertically integrated sales model.

The legal group, which represents lawyers working in litigation over dodgy advice, described as "troubling" a decision by the Federal Government to entrust institutionally-aligned advisory outfits with broadening the range of policies and funds on their approved product lists.

The lawyers told a Senate inquiry into consumer protection in banking, insurances and the financial sector there needed to be legislative change to show that planners had considered products from affiliated and non-affiliated providers.

The warning comes amid concerns about conflict-riddled business models where financial advisers make recommendations from a product list heavily weighted towards in-house policies.

Big institutional players also hide behind planning arms with names bearing no resemblance to the parent company's shingle.

Consumer advocacy group Choice said in its submission the Federal Government should legislate for advisers to disclose prominently whether they were truly independent or aligned with a financial institution.

It also called on ASIC to develop a plan to phase out completely commissions for personal advice about life insurance.

The reforms passed in February cut up-front commissions to advisers but left the sales incentive model as a key remuneration plank for financial planners recommending life insurance products.

The Australian Securities and Investments Commission said the new rules were intended to "reduce the incentive for advisers to write new business that is not in their clients' best interests".

ASIC said mandating wider approved product lists could help to improve competition but warned an expansion of insurance products on approved product lists "will not, on its own, address the risks of poor quality life insurance advice".

> AN EXPANSION OF ... APPROVED PRODUCT LISTS WILL NOT, ON ITS OWN, ADDRESS POOR QUALITY LIFE INSURANCE ADVICE.

ASIC's shadow shopping exercises had consistently shown the inadequate consideration of client needs by planners, inadequate justification for switching products and the impact of conflicted remuneration on advice quality.

The Australian Lawyers Alliance said there was a widespread practice in the industry of advisers recommending related company products to "the exclusion of more suitable non-affiliated products".

"Legislative reform is needed now to require financial advisers to demonstrate that they consider and recommend both affiliated and non-affiliated products," the alliance said.