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CLIENT NEWSLETTER - DECEMBER 2016

Dear Client,

This is an IMPORTANT DOCUMENT. It is GENERAL (but not specific) TAX ADVICE to existing Clients, being OUR TIMELY ADVICE TO YOU of Taxation Law as it now stands. IT IS MOST IMPORTANT THAT EVERY CLIENT READS THIS NEWSLETTER. If you do not FULLY UNDERSTAND any section that may be relevant to you, then please seek more information.

SUPERANNUATION REFORM

There have been some changes to the proposed reforms announced in the 2016 Budget. Outlined below are those changes that have now mostly passed Parliament and will apply generally from 1 July 2017.

- There will be a $1.6 million cap on the total amount of Superannuation that can be transferred into a tax free retirement (pension) account. This cap will be indexed in line with the CPI. It will be ok if your balance increases in value after that date.
- The cap on Concessional (before tax) contributions will be reduced to $25,000 per annum for everybody. Just as at present, any excess amount contributed will be taxed at a penalty rate.
- The exception is that Concessional contributions above $25,000 to a "Constitutionally Protected" fund such as Super SA will not be liable for any penalty tax. (This change means that Public Servants who contribute to both Super SA and a private fund will only pay penalty tax on that part of private fund contribution that takes their combined total super contribution to $25,000.
- The Non-Concessional cap will also be reduced, to $100,000. However, as is currently the case, individuals under age 65 will be able to bring forward up to three years of Non-Concessional contributions, ie you can make a non-tax deductible contribution of up to $300,000 (current limit is $540,000 up to 30 June 2017).
- The current Low Income Superannuation Contribution will be replaced with a Tax Offset. This will effectively refund tax paid on Concessional contributions by individuals with a taxable income up to $37,000 – with a refund limit of $500. However, instead of being a Tax Offset on your personal tax, the amount you are eligible for will be paid into your superannuation fund.
- The current "10% rule" will be removed, allowing all individuals under age 65, and those aged 65 to 74 who meet the work test, to claim a tax deduction for personal contributions up to the Concessional contributions cap. In the past this has prevented all those earning more than 10% of total income from salary and wages from making any tax deductible contributions other than by way of salary sacrifice.
- It will be easier to qualify for the spouse super tax offset for contributions on behalf of a low income spouse. Currently the maximum tax offset of $540 is only available when the spouse's income is below $10,800. That limit will be lifted to $40,000.
- One negative is that the Government will proceed to remove the tax exempt status of income earned from assets supporting a Transition to Retirement Income Stream. These earnings will be taxed at 15%, up until the person has either reached age 65 or Retired (working less than 10 hours per week).
- Although its start date has been put back to 1 July 2018, one very worthwhile change will be the new "catch-up" provisions for super contributions. This will allow individuals with a total super balance of less than $500,000 to carry forward any unused Concessional contribution cap for up to 5 years. This will potentially be a very valuable tax planning facility.
- There will be NO CHANGE to the Small Business CGT retirement exemption contribution limits and rules.
- The income limit at which point Concessional contributions will be taxed at 30% drops to $250,000.

OPPORTUNITIES BEFORE 1 JULY 2017

Although the "10% rule" is still in place, self-employed persons and those employees salary sacrificing can still contribute up to $30,000 for those under age 50 and $35,000 for those above right up to 30 June 2017. It is also still advantageous to commence a Transition to Retirement Income Stream between now and then, particularly if retirement or age 65 is likely to occur within the next 12 months or so.

The other major opportunity is to take advantage of the existing Non Concessional bring forward limit of $540,000 up to 30 June 2017.

FAREWELL TO SANDRA LAVENDER

Our "Director of First Impressions" Sandy Lavender is retiring after 21 years behind our reception desk. Apart from typing up Tax Returns, letters and attending to client accounts, Sandy has also been our "grammar and spelling" monitor.

In her wind-down phase, Sandy has been tutoring her replacement, Laura Heesemans. **Farewell and thank you Sandy. Welcome Laura.**

ESTATE PLANNING

One of our New Year's Resolutions is to try and ensure every client has decided on their wishes for Loved Ones AND has a documented Estate Plan. This means having an up to date Will in place and a nominated Power of Attorney in case of need.

Attached is a preliminary guide to Estate Planning and a Family Tree worksheet. We encourage you to complete details of your current family and also to use lines and arrows to indicate what your wishes are on your demise.

We have also prepared a much more detailed worksheet to go through with you which you/we can use to list specific assets to go to nominated beneficiaries.

We wish you and your family a safe and happy Christmas. Please note our office will be closed from 5.00pm, Wednesday, 21 December, reopening on Monday, 9 January 2017.

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