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Case Study

Accumulate Wealth Within Superannuation - The Goal Posts Keep On Changing

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Accumulate Wealth Within Superannuation - The Goal Posts Keep On Changing

The benefits of superannuation are widely known, and more and more Australians are using this generous tax effective vehicle to accumulate and preserve their wealth. There are two main avenues for people to contribute funds into superannuation – either by contributing pre-tax dollars (known as concessional contributions), or by contributing money or particular assets that they already hold in their personal names (known as non-concessional contributions). Making non-concessional contributions (NCC) into super is the topic for today.

Harder and harder...

Current superannuation legislation allows individuals to make non-concessional contributions of up to $180,000 per Financial Year, or up to $540,000 using the Bring Forward provisions if the individual is aged 64 years or less on 1 July. For an individual aged 65 years or more, the Bring Forward rule does not apply. These individuals can only make NCC's of up to $180,000 per Financial Year, on the proviso that they also meet the work test.

The most recent Federal Budget proposed a number of changes to the superannuation legislation. One of the key areas that the Government targeted was the dollar amount that an individual could non-concessionally contribute into superannuation.

The new NCC limits, from 1 July 2017 are now $100,000 per Financial Year, or $300,000 under the same Bring Forward provisions, just shy of half of the current limits. These new limits are a far cry from the days when individuals could make a once off NCC of up to $1 million (back in 2007), and is even less than the $150,000 per Financial Year limit that existed between the years of 2007 to 2014.

Looking forward, the current and future limits for non-concessional contributions are:

	Annual NCC Cap	Maximum Bring Forward NCC Cap Available* If Not Previously Used.
2016/17	$180,000.00	$540,000.00
2017/18 and onwards	$100,000.00	$300,000.00

Benefits...

Regardless of the current and proposed rules, the Australian superannuation system continues to remain a generous environment to accumulate wealth for retirement.

Any money contributed into superannuation as a NCC receives a tax free status and therefore can increase the tax-free component of funds within superannuation.

If an individual retires between their preservation age and 65 years of age, they have the option to also commence a pension from their superannuation savings. If a pension is commenced under the age of 60, then a proportionate amount of this income, based on the taxable component is added to an individual's personal income tax. Therefore, commencing a pension with a high tax-free component can be advantageous. The higher the tax free component, the lower the amount that is added to a person's income tax. After the age of 60, all income received from a superannuation income stream, regardless of the tax free component, becomes completely tax-free for the individual.

The added advantage is that the NCC remains tax free upon passing to a non-tax dependant, such as an adult child.

Therefore, the higher the tax-free component, the lower the amount of tax the adult child will have to pay. Compare this to if the funds are retained in a person's individual name. Any income, or capital gains that may be realised upon sale of an asset, are taxed at their marginal tax rate.

Maximising your current capacity – the different aspects that may apply to your situation…

With the upcoming changes to the NCC amounts that can be contributed into superannuation, now may be the time to consider your position and make a considered plan around what assets you personally hold, how and when you may get the funds into superannuation. If you are a member of a couple, you might even want to consider the amount that you each hold in superannuation – are your member benefits disproportionate? What are the taxable and tax free components? Do you have a partner that is younger than you and do we need to review your situation with regards to the Age Pension?

Bringing forward asset sales and planned contributions

You might have an investment property that you are considering selling. The property is valued at $850,000 and you have no debt to pay out. You are 68 years of age, while your spouse is 64 years of age. You are both working. Between the both of you, this Financial Year a combined $720,000 ($180,000 for you, and $540,000 for your spouse) can be contributed into superannuation.

However, next Financial Year you're a year older… Both over the age of 65 and unable to bring forward multiple financial years' worth of contributions. With the new NCC limits, the amount that you can get into superannuation dramatically decreases from $720,000 to $200,000. Do you therefore look at selling and settling before the 30 June 2017, in order to be able to get a higher amount of funds into the superannuation environment?

Personally held shares and managed funds can also be contributed into superannuation. Transferring these assets has the advantage of potentially receiving all or some of the franking credits that may be attached to the dividends that these investments distribute to shareholders. Further, the capital gains tax concessions within superannuation can be more generous than in an individual's personal name. However consideration needs to be given to the potential personal capital gains tax consequences of undertaking this strategy.

Increasing the tax-free components in existing superannuation accounts.

Alternatively, you may want to increase the proportion of taxable and tax free components within your current superannuation account. Depending on your situation, this may be as easily done as withdrawing funds from superannuation and re-contributing these funds back (otherwise known as "recycling") to increase the tax-free component of your member benefits.

Evening up member benefits

Another aspect of the Government's changes included the introduction of a $1.6 million cap on the amount of superannuation funds that can be transferred to an income stream with earnings taxed at 0%.

You may therefore be in the position where your superannuation balance is significantly higher than your partners balance. You may therefore want to consider transferring a part of your member benefit to your partner, to even up your respective balances in light of this $1.6 million cap.

Planning for potential future Age Pension benefits

There may be a significant age difference between yourself and your partner, and therefore your respective Age Pension ages. Do you therefore undertake a forward planning strategy, to assist in maximising your possible Age Pension entitlements?

Making the most of now...

Even if you are both under the Age of 65 and able to bring forward three years' worth of contributions, how do you maximise your superannuation contributions? The answer is shown in the tables below:

Option 1 – use bring-forward in 2016/17:			
Year	Annual NCC Cap	Available Bring Forward NCC Cap	Actual NCC Made
2016/17	$180,000.00	$540,000.00	$540,000.00
2017/18	$100,000.00	Nil	Nil
2018/19	$100,000.00	Nil	Nil
2019/20	$100,000.00	$300,000.00	$300,000.00
2020/21	$100,000.00	Nil	Nil
Total			$840,000.00
Option 2 – use bring-forward in 2017/18:			
Year	Annual NCC Cap	Available Bring Forward NCC Cap	Actual NCC Made
2016/17	$180,000.00	$540,000.00	$180,000.00
2017/18	$100,000.00	$300,000.00	$300,000.00
2018/19	$100,000.00	Nil	Nil
2019/20	$100,000.00	Nil	Nil
2020/21	$100,000.00	$300,000.00	$300,000.00
Total			$780,000.00

As you can see, the first option allows potentially $840,000 to be contributed by 1 July 2019, while the second option allows only $780,000 to be contributed by 1 July 2020.

Take away points...

Each individual situation is different, and taking into account your current and future situations in light of these changes to the NCC limits need to be taken into consideration. Therefore, consulting your adviser regarding your personal situation should always be obtained.

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