



FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

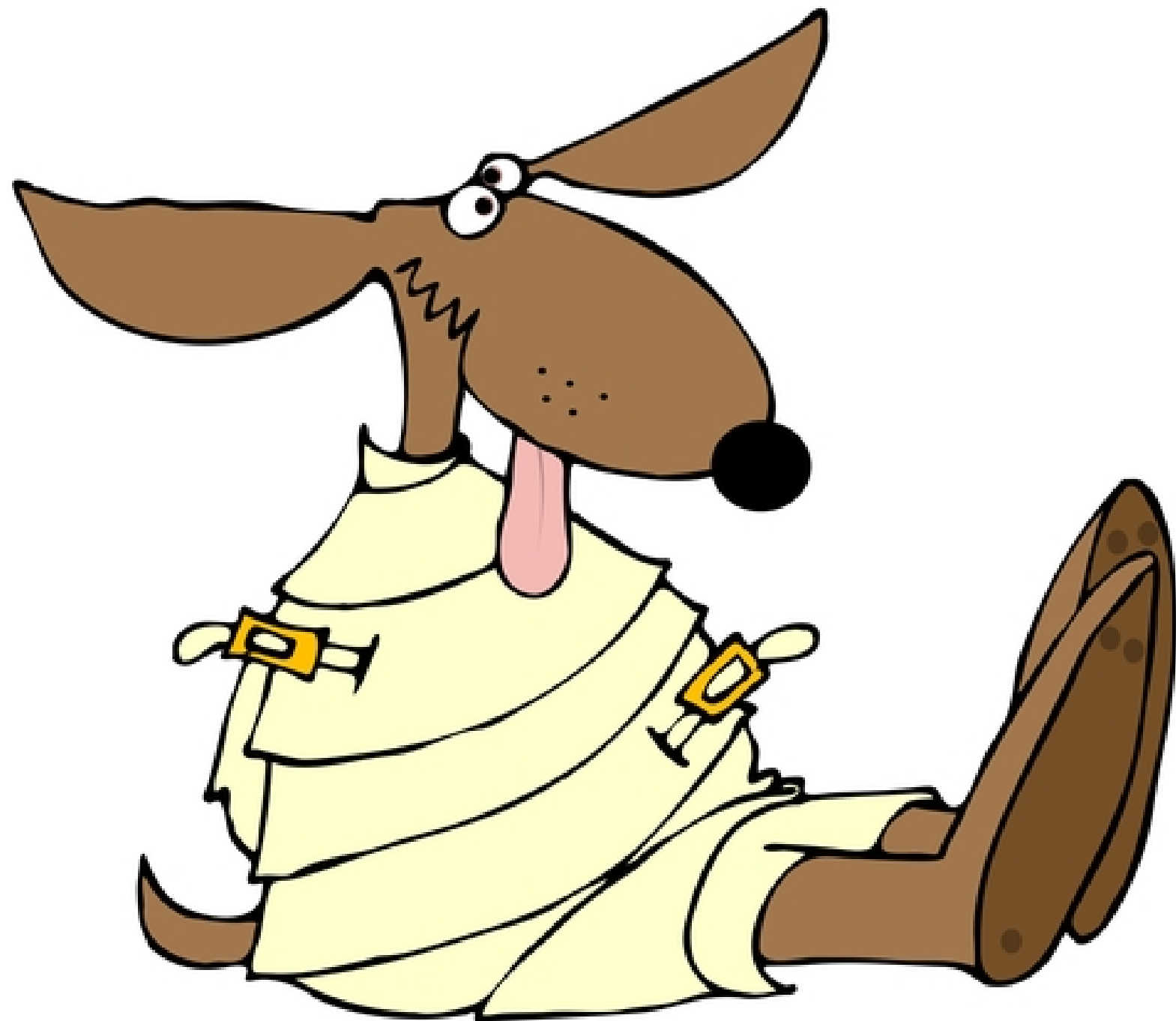
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HOBART 22-24 NOV

Making Sense of the 2017 Super Changes

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Overview

The reforms are intended to improve the

- Sustainability
- Flexibility &
- Integrity

of Australia's super system



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Overview

We will focus on the most complex items

- Calculating the Transfer Balance Account
 - Applying the Transfer Balance Cap
- Calculating the Total Super Balance
 - Applying the Total Super Balance Cap



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Transfer Balance Account

From 1 July 2017 anyone who has, or starts, a super pension will have a personal transfer balance account.

If the personal transfer balance cap is exceeded the excess, plus notional earnings, must be commuted. Tax is levied personally on the excess transfer earnings.

The initial personal transfer balance cap = general TBC = \$1.6m

Indexation in \$100k increments based on the unused general TBC % will eventually see personal transfer balance caps differ.

The records will be held by the ATO.



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Transfer Balance Account Calculation

Increases the Account	Decreases the Account
All pensions at 30 June 2017	Pension Commutation
New pensions from 1 July 2017	Structured settlements
Value of death benefit pensions	Family Law payment splits
Notional earnings on any excess	Fraud or bankruptcy losses
Accumulation amounts applied to repaying pension account LRB debt	



Transfer Balance Account

Items that DO NOT effect the transfer balance account are;

Pension payments

- So only draw minimum pensions with any excess to be notified as commutations

Investment gains and losses

- So possible for pension account balance to rise above the cap without penalty
- Don't assume that a balance less than the cap means that a new pension may be started



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Transfer Balance Account Credits

Pension values for the purposes of the transfer balance account

Account based pensions	Market value
❖ Lifetime pensions	Annual entitlement x 16
❖ Existing term pension @ 30/6/17	Annual entitlement x remaining term
New term pension from 1/7/17	Market value if commenced from 1 July

- ❖ Cannot be commuted so retained even if over TBC – other pensions must be commuted to cater for this.
- ❖ If capped defined benefit income over \$100k then 50% of excess is taxed at marginal rates.



Transfer Balance Account

Death benefit income streams from 1 July 2017

- Can be rolled over and retain rebate (if applicable)
- Must be quarantined from other pensions even if rolled over
- Cannot be commuted and restarted as reversionary pension
- Can only be commuted to a lump sum



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Transfer Balance Account Credits

Death benefit income streams

Reversionary Pensions

- Value at death is counted 12 months after death
Very useful if beneficiary will be in excess as extends time in tax free mode

Non Reversionary Pensions

- Value at commencement is counted
May be different to value at death



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Death Benefit Income Streams

Be careful of altering existing non-reversionary pensions to reversionary.

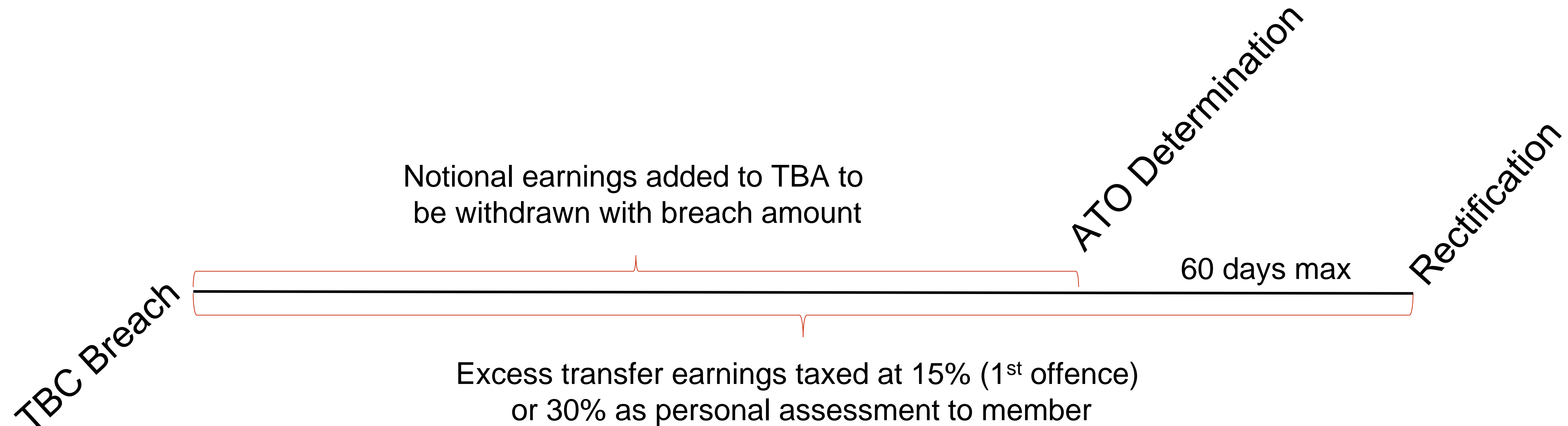
- Pre 1 January 2015 pension will be deemed for the income test.
- Market linked or defined benefit pensions will lose their asset test exemption.



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Excess Transfer Balance Consequence

Earning rate is 90 day bank bill rate + 7%



Rectification can occur before the ATO determination

One off disregard up to \$100k excess until 31/12/2017 for existing pensions



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Transfer Balance Account Credits

SMSF borrowing repayments that increase the pension account balance.

Only applicable to SMSFs and have never seen it.



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Transfer Balance Account Debits

Structured Settlement contributions reduce the TBA

Settlement of a personal injury claim effected by a written settlement agreement, an Australian workers compensation law, or an order of a court on similar grounds.

Previously received structured settlements reduce the TBA of existing pensions at 30/6/17

- Include earnings since contribution
- May also include contributions if mixed accounts
- May need to confirm with ATO



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Transfer Balance Account Debits

Family Law Payment Split

- Member spouse TBA is debited equal to the lump sum commutation. If the non-member spouse commences a pension, a credit will arise in their TBA.

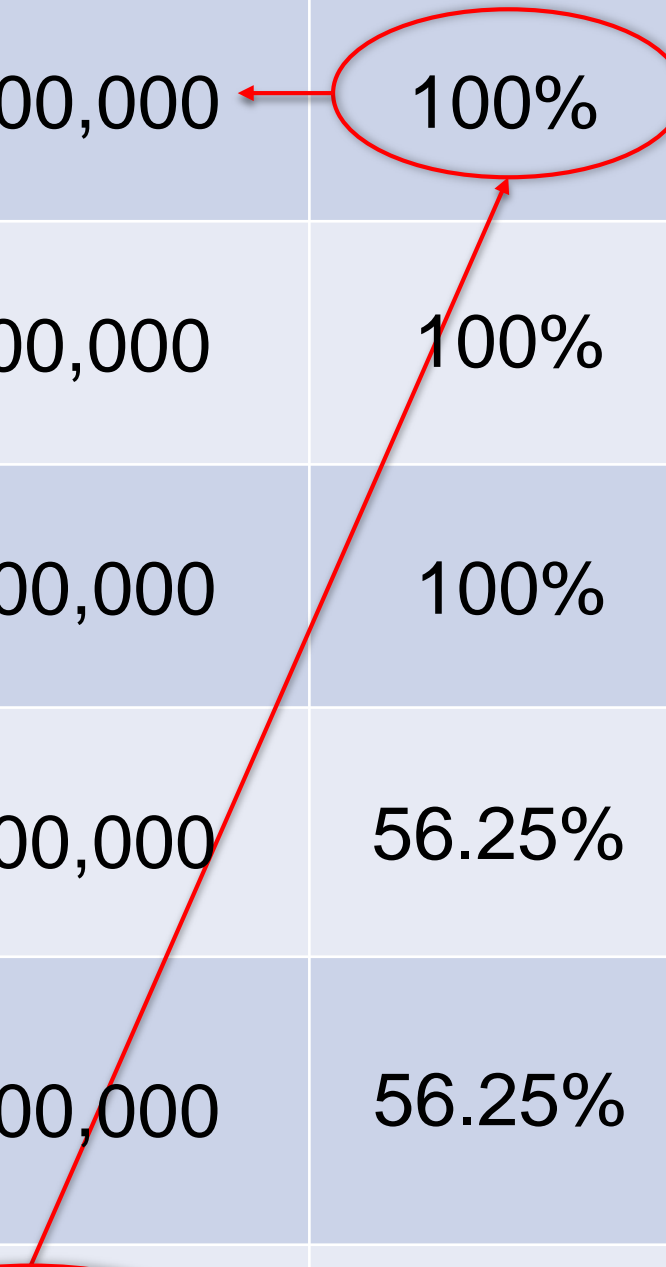
Investment Fraud or Bankruptcy

- At the Commissioners discretion



Transfer Balance Account Debits

Date	Transaction	TBA Debits	TBA Credits	Transfer balance account	Member pension balance	General transfer balance cap	Personal transfer balance cap	Cap % used
1/7/2017	Existing Pension		\$2,000,000	\$2,000,000	\$2,000,000	\$1,600,000	\$1,600,000	100%
31/7/2017	Notional earnings		\$3,036	\$2,003,036	\$2,000,150	\$1,600,000	\$1,600,000	100%
31/7/2017	Partial commutation	\$403,036		\$1,600,000	\$1,597,114	\$1,600,000	\$1,600,000	100%
15/11/2017	Family Law Split	\$700,000		\$900,000	\$837,523	\$1,600,000	\$1,600,000	56.25%
30/6/2023	Roll \$300k in Contribute \$400k Structured settlement			\$900,000	\$1,023,796	\$1,600,000	\$1,600,000	56.25%
1/7/2023	New \$700k Pension & Indexation applied		\$300,000	\$1,200,000	\$1,723,796	\$1,700,000	\$1,600,000	75%



Transfer Balance Account & Death Benefits

Tony and Fran are both aged 60, retired, and have each commenced an account based pension of \$1.6m. Several years later Tony dies. Their accounts have each grown to \$2m.

Fran must satisfy the \$1.6m transfer balance cap.

How does Fran retain the \$4m in the fund?



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Transfer Balance Account Debits

Transaction	Debits	Credits	Transfer balance account	Member pension balance	Personal transfer balance cap
Frans Pension			\$1,600,000	\$2,000,000	\$1,600,000
Commute Fran's pension	\$2,000,000		-\$400,000	\$0	\$1,600,000
Commence Death Benefit Pension		\$2,000,000	\$1,600,000	\$2,000,000	\$1,600,000

Fran can retain her \$2m in accumulation

Tony's benefit could not have stayed in the fund in accumulation



TRIS Changes

From 1 July 2017

- Lose tax exemption on fund earnings – taxed like an accumulation account
- Not counted towards TBA
- Tax status on payments is unchanged
- Still useful for salary sacrifice arrangements particularly for high bracket tax payers over 60



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TRIS Salary Sacrifice

Belinda earns \$85k and has \$300k in super

Age 60 for 4 Years	Account Balance	Benefit
No TRIS	\$426k	\$0
Pre 1/7/17 TRIS	\$457k	\$31k
Post 1/7/17 TRIS	\$449k	\$23k



Total Super Balance

Relevant for determining eligibility for

- Carrying forward unused concessional contributions (\$500k Cap)
- Quarterly TBA reporting for SMSFs (\$1m Cap)
- Making non concessional contributions and/or bringing forward NCCs (\$1.6m Cap)
- Government co-contributions (\$1.6m Cap)
- Spouse contribution tax offsets (\$1.6m Cap)
- Asset segregation for SMSFs and SAFs (\$1.6m Cap)

Balance at 30 June is applied to eligibility for the following year.



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Total Super Balance Calculation

The technically correct way is

Accumulation balance **plus** transfer balance account **plus** any rollover benefits in transit **minus** the sum of any structured settlement payments

The transfer balance account above is modified **if an account based pension** is included by disregarding

- Credits that have arisen from ABP commencement
- Debits that have arisen from
 - Commutations
 - Payment splits
 - Non complying super income streams



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Total Super Balance Short Method

Total Super Balance is only relevant at previous 30/6



Date	Transaction	TBA Debits	TBA Credits	Transfer balance account	Member pension balance	General transfer balance cap	Personal total super cap	Total super value
1/7/2017	Existing Pension		\$2,000,000	\$2,000,000	\$2,000,000	\$1,600,000	\$1,600,000	\$2,000,000
31/7/2017	Notional earnings		\$3,036	\$2,003,036	\$2,000,150	\$1,600,000	\$1,600,000	\$2,003,186
31/7/2017	Partial commutation	\$403,036		\$1,600,000	\$1,597,114	\$1,600,000	\$1,600,000	\$1,600,150
15/11/2017	Family Law Split	\$700,000		\$900,000	\$837,523	\$1,600,000	\$1,600,000	\$840,559
30/6/2023	Roll \$300k in Contribute \$400k structured settlement			\$900,000	\$1,023,796	\$1,600,000	\$1,600,000	\$1,326,832
1/7/2023	New \$700k Pension & Indexation applied		\$300,000	\$1,200,000	\$1,723,796	\$1,700,000	\$1,700,000	\$1,326,832

If capped defined benefit pensions are included, their special TBA value, minus structured settlements, is used instead of their “member balance”.

\$500k cap is not indexed

Concessional Contributions

From 1 July 2017

- CC's reduced to \$25,000
 - 10% rule removed
 - Individuals, including employer supported, can make a tax deductible contribution up to their \$25,000 cap
 - Review salary sacrifice arrangements - could be being disadvantaged currently
- Catch up CC eligibility does not commence until 1 July 2018 then rolling 5 year period from that date if eligible



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Non Concessional Contributions

From 1 July 2017

NCC's reduced to \$100,000 or Nil if Total Super Balance is \$1.6m at 30 June 2017
Unused portion of 3 year bring forward will be affected

Year	Allowable Further Contribution			
	15/16	16/17	17/18*	18/19*
Contribution	\$200k	\$340k	\$0k	\$300k
Contribution		\$200k	\$100k	\$0k
Contribution			\$200k	\$100k

* Assuming Total Super Balance Cap is not breached previous 30 June



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Non Concessional Contributions

Strategy Consideration

Total Super Balance @ previous 30 June	NCC Cap	Bring Forward Period
Less than \$1.4m	\$300k	3 years *
\$1.4m to less than \$1.5m	\$200k	2 years *
\$1.5m to less than \$1.6m	\$100k	Nil
\$1.6m or more	\$0	Nil

* Assuming Total Super Balance Cap is not breached previous 30 June from 1 July 17



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Other Stuff

- Abolition of Anti Detriment deduction (but retention of future service benefit deduction)
- Div 293 threshold - 30% contribution tax for \$250k earners
- CGT Relief
- Child pensions
- Downsizer Contributions (from 1 July 18)
- First Home Super Saver Scheme
- Event based reporting



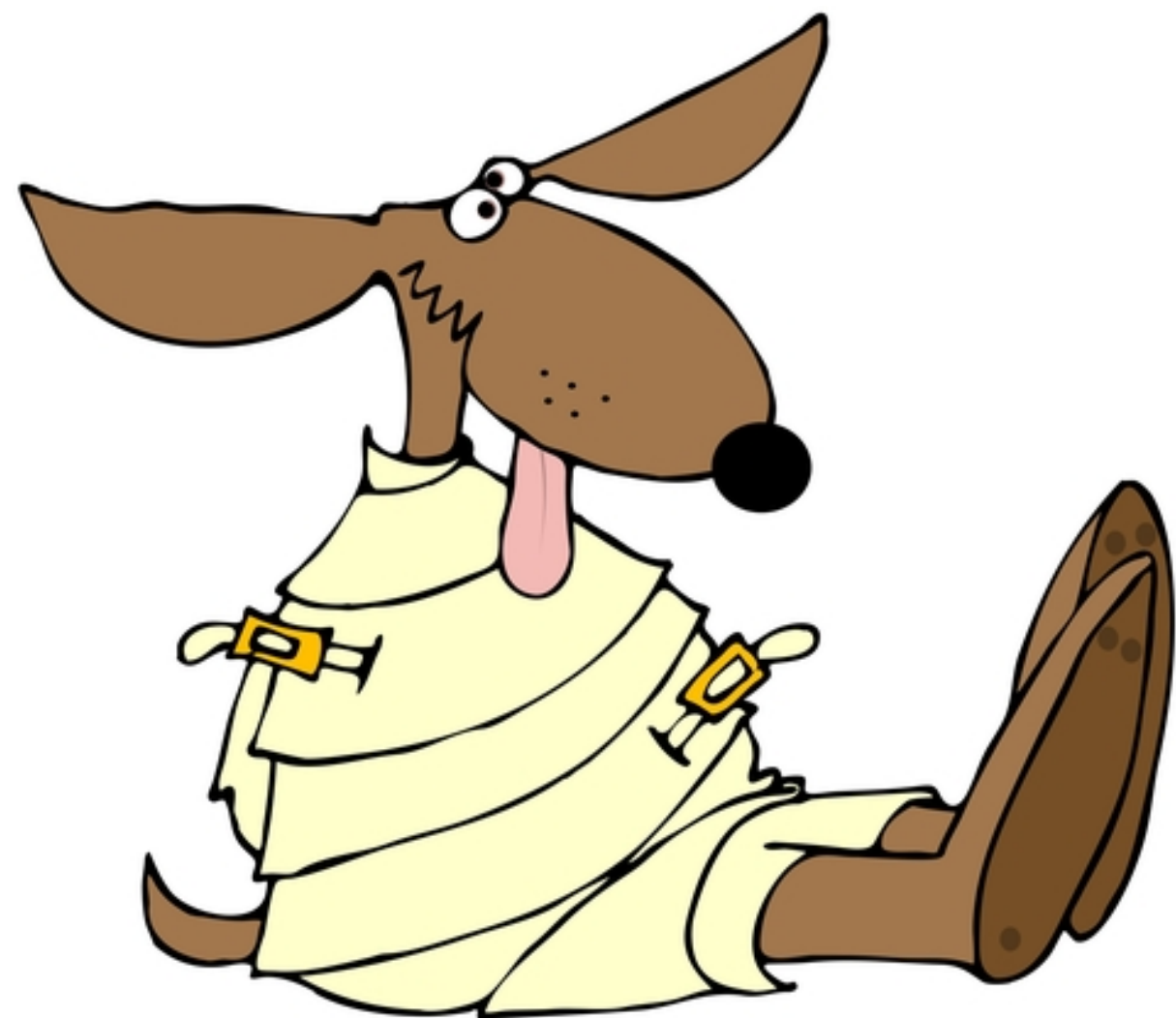
Questions

Feel free to ask me your questions when you see me during the conference.

I'm currently restrained but if you give me your business card or drop me an email at

davidbusoli@hotmail.com

I will give you an SMSF proposition worthy of your consideration
in the first quarter of 2018.



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