Financial Planning, Superannuation, Life Insurance
Australian Financial Services Licence No. 222835
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ABN 64 090 069 239
www.planningpartners.com.au

Planning Partners

Prosperitas

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Prosperitas: Latin for **prosperity & good fortune**

No News is Fake News

Just to be absolutely clear, *Prosperitas* is not 'fake news'. This has and always will be an uncompromising publication where no quarter is asked or given.

We are certainly living amid volatile political times. Nationalism is tending strongly among western communities and commonly known liberties are being casually tested. Rather strangely and amid all of this, the equity and property markets have, in recent times, been at their least volatile. In a world where information sharing is occurring at light speed, has the constant noise of the news feed deafened and desensitized us?

Whether it has or it hasn't, Matt Hunter has steadfastly refused to be distracted. He has convinced the editor to dedicate the entire centrefold of this newsletter to de-mystifying superannuation changes and providing a road map for those implicated. This is despite the best efforts of the government (and opposition) to articulate these changes in as poorly a way as one could ever imagine. It is as though there is negligible impact on all working and retired Australians – clearly this is not the case.

The mainstream American press might well claim of the president that "what we've got here is failure to communicate". Accordingly, our resident Movie Buff had no choice but to review the 1967 Paul Newman classic, *Cool Hand Luke*. If you would like one of your own favourite movies reviewed by the Movie Buff, please email your suggestions through to your adviser for consideration.

Our increasingly popular residential and commercial property mortgage service has seen us add Phillip Olson to the fold over the last six months. Phil has been a welcome enhancement to our team but for his sins, he has been duly subjected to the white hot grill that is our player profile article in this edition.

We do hope that you enjoy this edition of *Prosperitas*.

Martin R McIntosh
Managing Partner

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Ground Floor, 971 Burke Road, Camberwell VIC 3124
PO Box 8192 Camberwell North VIC 3124
T 03 9830 0366   F 03 9830 7028
advice@planningpartners.com.au

In this special two page report, our Superannuation Technical Specialist Matt Hunter provides you with all you need to know regarding the recent (and not insignificant) superannuation changes.

The Huntsman's Web with Matt Hunter

Recently the Federal Government announced a number of changes surrounding superannuation legislation, the main changes have been outlined below.

$1.6 million Transfer Balance Cap

The $1.6 million Transfer Balance Cap (TBC) is a limit imposed on the total amount that an individual can transfer into the tax-free pension phase from 1 July 2017. The TBC is $1.6 million for the 2017/18 financial year and will be indexed in line with inflation in $100,000 increments.

All individuals who are in receipt of a superannuation pension on 1 July 2017 will have a transfer balance cap of $1.6 million established at that time.

Transfer Balance Account

From 1 July 2017 each individual will have a Transfer Balance Account (TBA) which reflects the amount that they can transfer across to the drawdown phase. The TBA is created when an individual first commences a super pension or other type of superannuation income stream.

The Australian Tax Office (ATO) will be able to provide individuals with information regarding their TBA.

If you fully utilise your $1.6 million transfer balance cap when moving to retirement, or fully utilise at a later date, then you cannot take advantage of the periodic $100,000 indexed increases in the transfer balance cap. If you have not fully use your $1.6 million transfer cap, you can take advantage of the indexed increases to the cap, assuming of course you have the savings to do so.

If an individual decides to make a partial or full commutation (a lump sum withdrawal or transfer funds back to accumulation phase) from a super pension or other superannuation income stream, which will then reduce an individual's transfer balance account. They will be allowed to recontribute funds back into the pension at a later date if they have the funds available and are eligible to make contributions.

Following the introduction of the TBA investment earnings or losses will not change the value of a person's transfer balance account.

What happens if you are already in pension phase before July 2017?

If you already hold a pension balance in excess of $1.6 million on 1 July 2017 then you will be required to do one of the following.

1. You can transfer the excess balance above $1.6 million back into an accumulation account, or
2. You can withdraw the excess above $1.6 million out of the superannuation system.

The ATO will require you to take action before 1 July 2017. If an individual fails to take action by 1 July 2017 notional earnings will accrue daily on the balance above $1.6 million based on the general interest charge (currently 8.76% p.a.) and will be added to the individuals TBA until the breach has been rectified.

These notional earnings will then be taxed at 15% for the first breach and 30% for subsequent breaches.

Capital Gains Tax Relief for Pension Assets

Where you are required to restructure your superannuation income stream arrangements prior to 1 July 2017 to comply with the $1.6 million transfer balance cap capital gains tax relief (CGT) may be available.

The CGT relief has been made available to those assets which are transferred, reallocated or re-proportioned to comply with $1.6 million transfer balance cap provided that the assets have been held continuously from 9 November 2016 until 30 June 2017. You will have the ability to reset the cost base of the relevant assets to the market value at the time of varying the assets, once the election is made it is irrevocable and it will reset the 12 month CGT discount period.

Self-Managed Super Funds

From 1 July 2017 Self-Managed Super Funds (SMSF) will no longer be able to use the segregated assets accounting method where there is an accumulation interest within the fund. The trustees of the fund will then need to adopt the proportioned method either during the current financial year or the fund will automatically convert to the proportioned method on 1 July 2017.

CGT relief will be afforded to funds in pension phase on an asset by asset basis however, where the fund is already using the proportion method and there is also an accumulation account within the fund CGT will be payable on the portion of the refreshed asset that is attributed to the accumulation account. The super fund will have the ability to defer the payment of any CGT liability for up to 10 years or until that particular asset is actually sold.

Defined Benefit Pension

The recent super reform changes include a number of implications for certain defined benefit income streams, listed below, which will be referred to *as capped defined benefit income streams*.

1. Lifetime pensions commenced at any time.
2. Lifetime annuities in place before 1 July 2017.
3. Market linked pensions and annuities (also known as Term Allocated Pensions of TAPs) and RSA market linked pensions in place before 1 July 2017.
4. Life expectancy pensions and annuities in place before 1 July 2017.

These income streams will be 'capped' because the amount that is assessed towards the member's transfer balance account may be limited in certain circumstances.

Income received from these pensions will count toward the $1.6 million transfer balance cap, this amount is referred to as the 'special value'. The 'special value' of a *capped defined benefit income stream* will be calculated using a different method depending on the type of pension.

Where the 'special value' of a capped defined benefit income stream exceeds

the $1.6 million transfer balance cap, the excess transfer balance will be the lesser of either the amount above $1.6 million or the total value of their income stream assets including *capped defined benefit income stream* less the balance relating to capped defined benefit income stream.

Example

Ben has a defined benefit income stream with a special value of $1.7 million and an account based pension valued at $300,000 at 1 July 2017. Ben's transfer balance account has a balance of $2 million and has an excess transfer balance of $400,000. Where Ben commutes (withdraws from) his account based pension in full ($300,000), the remaining excess amount will be $100,000. As there is no remaining commutable (withdrawable) income streams available the excess of $100,000 is disregarded.

The income tax treatment of defined benefit income streams will also be less favourable from 1 July 2017 where income above $100,000 p.a. will be 50% assessable for taxed funds and untaxed funds will lose the 10% offset in an individual's personal tax return.

Transition to Retirement Pension

The recent budget changes have removed the tax-exempt status of the earnings of assets that support a transition to retirement pension, the taxation of these assets will revert to superannuation tax rates (15% tax on income and capital gains with capital gains tax reducing to 10% for assets held longer than 12 months). Up until 30 June 2017, the investment earnings on assets supporting an transition to retirement pension are exempt from tax.

Pension payments made from a transition to retirement pension will continue to receive concessional tax treatment for those between their preservation age and 60. Pension payments for those that are over the age of 60 will continue to be tax free. For those that are currently using this strategy and do not require the pension payments to meet their living expenses it should be considered to transfer the funds back into superannuation.

Contribution Changes

Concessional Contributions

The annual concessional contributions cap has been reduced to $25,000 for all individuals (from $30,000 for those aged under 49 at the end of the previous financial year and $35,000 for those aged above 50 and above at the end of the previous financial year).

Concessional Superannuation Contributions tax threshold reduction

The threshold at which high-income earners pay Division 293 tax on their concessionally taxed contributions to superannuation has been reduced from $300,000 to $250,0000.

Non-Concessional Contributions (NCC)

For the current financial year all individuals under the age of 65 at the start of the financial year have the ability to contribute up to $180,000 per annum into superannuation as a non-concessional contribution (after tax contribution). They will also have the ability to bring forward 2 years' worth of contributions into the current financial year meaning that they can contribute up to $540,000 in non-concessional contributions in one financial year. If you are over the age of 65 you are not eligible to use the bring forward provisions.

From 1 July 2017, the annual non-concessional contributions cap will drop to $100,000 therefore the maximum bring forward amount will reduce to $300,000 going forward.

Following the introduction of the $1.6 million transfer balance cap individual's under the age of 65 will also be restricted on the level of NCC that they can make as listed below.

Non-Concessional Contributions Bring Froward Rule from 1 July 2017

Total Super Balance	NCC Cap	Bring-Forward Period
Less than $1.4m	3 x NCC cap ($300,000 for 2017/18 FY)	3 years
Between $1.4m and $1.5m	2 x NCC cap ($200,000 for 2017/18 FY)	2 years
$1.5m to less than $1.6m	1 x NCC cap ($100,000 for 2017/18 FY)	None available
$1.6m or more	Nil	N/A

If your superannuation balance exceeds $1.6 million at 30 June of the previous financial year you will not be able to make NCC's during that financial year. However, if the account balance were to drop below $1.6 million at the end of that financial year you would then again have the ability to make NCC's into superannuation up to the relevant limits.

Naturally, if you have any queries in relation to the recent changes to superannuation legislation and how they might affect your situation please don't hesitate to contact our office to discuss.

Phillip Olson

Player Profile – Phillip Olson

The Brisbane Lions owe a huge debt of gratitude to Warrnambool for producing Johnathon Brown; speaking of debt and Warrnambool, we'd like to introduce you to our new Manager - Mortgage Services, Phillip Olson.

Having driven down the Princes Highway via Monash University for a degree (Bachelor of Economics) and a detour to NAB and then Westpac, Phillip's GPS directed him to Camberwell for a role with Planning Partners.

Phillip's background has predominantly been in Private Banking where he did nine years with NAB and seven years with Westpac, performing a range of tasks be it residential lending, business lending and banking, asset financing, and complex loan arrangements.

A long time Essendon supporter, Phillip is looking forward to watching AFL again in 2017. When not at work, he enjoys recreational cycling and last year raised valuable funds for the NSW Cancer Council when he took part in an annual Clunker Car Rally which last year went from Mackay to Hobart. Phillip lives with his wife Paula and daughter Courtney while his eldest daughter has 'flown the coop' and lives in Queensland.

Garden Clippings

I might only be a garden gnome but a very wise, charismatic (and impossibly good looking) financial planner once told me that "failing to plan is akin to planning to fail."

In the garden, the cooler months are your planning months. Here are a few pointers to keep you interested and busy as the leaves drop;

Perennials

- Divide overlarge clumps of spring and summer-blooming plants to control size and renew their blooming.
- Dig new beds and renovate existing ones. Plant new perennials and transplant others.
- Plant cool weather annuals such as pansies.

Trees and Shrubs

- Water citrus trees well to prevent the fruit from splitting.
- Disbud camellias for larger blooms. Water camellias regularly to prevent buds from browning and dropping off.
- Delay fertilizing trees until spring.
- Prune injured and unwanted (if shaping) branches from trees and shrubs.

Vegetables

- Sow carrots, beets and other root crops as well as lettuce for harvest.
- Clean up plant debris in harvested beds. Mulch empty beds to protect the soil over winter.
- Build more raised beds and repair trellises.

GG

The Movie Buff

Cool Hand Luke (1967)

Buff Rating: Paul Newman's Salad Days

On the 50th Anniversary of the release of this classic film, Paul Newman's "Cool Hand" Luke Jackson stands as one of the great anti-establishment cinematic figures

Having been arrested for knocking off parking meters on a drunken night, Luke is sent to join a chain gang in the oppressive Florida sun under the watchful eye of the Captain (Strother Martin) and Boss Godfrey, aka "the man with no eyes" (no one has ever worn a pair of mirrored sunnies like him). Dragline (George Kennedy) is 'top dog' and rules over the other inmates but Luke spurns his authority, which leads to a gritty and brutal fight scene. Although badly beaten, Luke tenaciously refuses to concede defeat until, finally, Dragline calls an end to the fight. As a result, Luke is respected and admired by the inmates and guards alike.

Luke's status then grows when he bluffs his way to winning a card game (and in the process earns his nickname) gains the other prisoners some time off, and then eats 50 hard boiled eggs in an hour to win a bet.

After receiving news that his mother has died, what follows is a string of escape attempts, time in "the box" on recapture, and a gradual wearing down of his non-conformist ways. This peaks when he is forced to dig a grave-like hole, fill it in, and then get beaten by the guards. Finally, Luke acquiesces and tearfully pleads for mercy. It seems he is broken, and he agrees not to escape again.

However, that is not the end of the story - and for those that have not seen the film the Movie Buff implores you to do so. Full of biblical imagery, it is the essentially the story of a man fighting to retain his independence and kicking against the system. Performances are both powerful and memorable, the harsh conditions palpable, and the human spirit undeniable.

'Cool Hand Luke' is worthy of a lengthier review than the space here allows, but maybe one of its great quotes can offer hope in the current political climate in which some may say there's nothing positive about who occupies the White House - "Sometimes, nothin' can be a real cool hand".

PROFESSIONAL PRACTICE

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Ground Floor, 971 Burke Road, Camberwell VIC 3124
PO Box 8192 Camberwell North VIC 3124
T 03 9830 0366 F 03 9830 7028
advice@planningpartners.com.au
www.planningpartners.com.au