

Preparing for 1 July 2017 Tax changes

13 June 2017

As we get closer to 1 July 2017 and the introduction of the new taxation rules dealing with Superannuation, one needs to take care in relation to transactions within your Superannuation Fund after that date.

The purpose of this document is to remind you of the impact of these changes with respect to Capital Gains Tax status of your Superannuation Fund assets and to help you plan to meet your day to day cash needs post 30 June 2017.

1 The Impact of the 'Mark to Market' rules

As you are aware, the Federal Government introduced transitional provisions to avoid retrospectivity in relation to the Capital Gains Tax implications of the new tax changes. Superannuation Fund Trustees under certain circumstances, will be permitted to 'Mark to Market' assets held by the Superannuation Fund as at 30 June 2017. This means for those SMSF's substantially in Pension mode currently will not pay tax on gains accrued on assets up to 30 June 2017.

1.1 Asset must have been held as at 9 November 2016 for the Mark to Market rules to apply

The only Superannuation Fund assets that can potentially be marked to market as at 30 June 2017 will be those that the Superannuation Fund held as at 9 November 2016.

There are important considerations in relation to assets that your Superannuation Fund has acquired after 9 November 2016.

Those assets will not be marked to market as at 30 June 2017.

Accordingly, any gain that has accrued since the acquisition of those assets to 30 June 2017, will potentially be subject to tax when the assets are sold after 30 June 2017. For those clients, substantially or wholly in pension mode currently, you may consider disposing of these assets prior to 30 June 2017 and realising the gain tax free.

The partial commutation of your pensions back to accumulation mode to comply with the \$1.6 million Pension Transfer Balance Cap rules only takes place on 30 June 2017. Accordingly, the capital gain that you will accrue on physically disposing of the asset pre-30 June 2017, is likely to be substantially tax free.

Of course, you need to consider the overall investment implications of such actions.

1.2 Disposing of Assets after 30 June 2017

Assets that are marked to market effective 30 June 2017, are deemed for CGT purposes to be disposed of and reacquired by the Superannuation Fund on that date. Accordingly, for a Superannuation Fund to get the benefit of the Capital Gains Tax discount (i.e. reducing the Capital Gains Tax Rate from 15% to 10%) the asset must be held for 12 months after 30 June 2017.

Accordingly, please be aware that those assets that you mark to market as at 30 June 2017, if they are sold within the 30 June 2018 year at a capital gain, there will be no CGT discount provided for the taxable proportion of that gain to the Superannuation Fund.

1.3 Mark to Market election

The election to mark to market assets in the Superannuation Fund using their 30 June 2017 market value, only needs to be lodged with the 30 June 2017 tax return. Your Tax Agent will work with you to determine the most appropriate assets to mark to market. For example, you would not mark to market assets that have unrealised capital losses as at 30 June 2017.

More importantly, if between 30 June 2017 and the time of lodgement of your Superannuation Fund's 30 June 2017 tax return you sell an asset that you have acquired before 9 November 2016, consideration needs to be given as to whether you mark to market this asset.



Accordingly, please keep track of those assets acquired before 9 November 2016 that you do sell after 30 June 2017, to notify your Tax Agent of this fact to then consider when determining whether to mark to market this asset using the 30 June 2017 valuation.

2 Cash Flow Implications of changes

Post 30 June 2017, you need to reconsider how you will fund your personal day-to-day living costs.

We know that your complying pension will have a maximum asset value of \$1.6 million at 30 June 2017 and as such the pension that you are required to draw for the 30 June 2018 year is set.

This amount you need to draw as an annual pension payment will depend upon your age on 1 July 2017.

Utilising the maximum concessional tax pension of \$1.6 million, the amount of minimum pension that you need to withdraw, depending on your age, for the 30 June 2018 year is as follows:

Age of Member at 1/7/17	Percentage factor	Minimum pension
Under 65	4%	\$64,000
65 - 74	5%	\$80,000
75 - 79	6%	\$96,000
80 - 84	7%	\$112,000
85 - 89	9%	\$144,000

Your first 'port of call' to fund your day to day cash needs therefore for each pensioner within your Superannuation Fund is to draw the minimum annual pension. You can draw this out in one instalment in July 2017 for example and leave it in your day-to-day living account for you to spend for the year.

2.1 Drawing cash from your SMSF once you have exhausted the minimum annual pension

Once you have exhausted your minimum annual pension payment, you then have the option of drawing cash from resources outside your Superannuation Fund.

Alternatively, you can commence to draw further money from your Superannuation Fund.

If you are drawing money from within your Superannuation Fund to further meet your lifestyle costs, it is preferable to draw money first from your Accumulation Balance within the Fund (if you have one).

Of course, if you do not have an Accumulation Balance, you can continue to draw money from your pension account.

For those with balances both in accumulation and in pension, once you have drawn the minimum pension for the year, it is best to draw firstly from the accumulation balance and then the pension.

If you have multiple members in the Fund, it is best to draw money from the accumulation or pension account that has the highest 'taxable' component as this will reduce any taxes due by your Estate or children on the death of the last member of your Superannuation Fund.

Where you get to the point that you have drawn all your minimum pension requirements and require assistance as to which component to then draw from to meet your day-to-day living needs, I would be happy to help you. We will need to execute some documentation once you commence to draw cash from your Accumulation balance within the Fund.

If you have any queries in relation to any of the information above, please do not hesitate to contact me.

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