Superannuation tax reform

130 days but who is counting?

February 2017

There are now 130 days before the new changes to the taxation arrangements concerning Superannuation take effect. In December 2016. We now need to commit to an implementation plan for your particular circumstances.

What do the changes practically mean?

As I have previously stated, I concluded that the changes to the Superannuation taxation arrangements practically mean the following:

1. Preparatory steps with respect to the changes in pension taxation arrangements are important but compliance driven. We need to co-ordinate the implementation of those steps to ensure appropriate documentation is in place in readiness for the changes effective 1 July 2017.
2. The most significant challenge is to integrate the impact of these taxation changes into your asset succession planning and subsequent documentation.

Timing issues – The Must Do's pre-30 June 2017

I have previously forwarded you background information concerning the changes.

A copy my note drafted in December 2016, can be found on our website www.kordamentha.com/kmprivateclients. Alternatively, I am happy to email you another copy if you request it.

The time critical issues that need to be addressed pre-30 June 2017, are as follows:

1. Obtain details of your Superannuation assets as at 9 November 2016.

The Federal Government was keen to avoid retrospectivity in relation to the impact of these changes on the Capital Gains Tax (CGT) liability on the future sale of assets within a Superannuation Fund. Accordingly it has provided a mechanism by which certain assets within the Superannuation System as at 9 November 2016 can have their cost base "marked to market" effective 30 June 2017.This means that those assets entering into the revised taxing regime on 1 July 2017 will have their cost base for CGT purposes equal to their market value on 30 June 2017.

To take advantage of this uplift in the cost base for CGT purposes of your assets within the Superannuation system, you need to:

(i) Obtain details of those assets that you held within your SMSF at 9 November 2016. These are the only assets that the "Mark to Market" Rules will apply to.

(ii) Undertake specific actions to ensure that you qualify for the Mark to Market Rules. Such actions could be partially or fully commuting pensions, or making contributions to Superannuation for example. We need to work through this with you.

2. Partially/fully commute pensions to get within the $1.6 million Pension Transfer Cap.

Paperwork must be completed to achieve this and the documentation will be specific to your particular circumstances, depending on the pensions that you have in place.

KM Private Clients Pty Ltd | ACN 611 740 160 | AFSL 486798 | Liability limited by a scheme approved under Professional Standards Legislation

3. **Upgrade your Superannuation Fund Trust Deed**

I also suggest that you upgrade your Trust Deed this year, to ensure it complies with the many legislative changes that have been enacted.

4. **Maximise your Superannuation Contributions**

For many, this year will mark the last year of making undeducted contributions to superannuation. Those with Superannuation Fund balances in excess of $1.6 million as at 30 June 2017 will be prohibited from making any further non-concessional contributions from 1 July 2017.

The 30 June 2017 year also marks the final year for those aged over 50 to make tax deductible contributions of up to $35,000. From 1 July 2017 the maximum tax deductible superannuation contribution limit is $25,000. If you are salary sacrificing contributions more than this amount please ensure you adjust your employer contributions effective 1 July 2017.

Strategic issues – Not urgent but important

The impact these changes have on your asset succession strategies

Due to the $1.6 million Pension Transfer Cap being introduced effective 1 July 2017, for many people, significant benefits within the Superannuation system are reverting from Pension mode back into Accumulation mode.

For couples, on the death of the first of you:

1. amounts within a Superannuation Fund in Accumulation mode in the name of the Deceased must now be withdrawn from the Superannuation System; and
2. Reversionary pensions transferring to the surviving spouse must be managed so that the Pension Transfer Cap is not exceeded at this point in time.

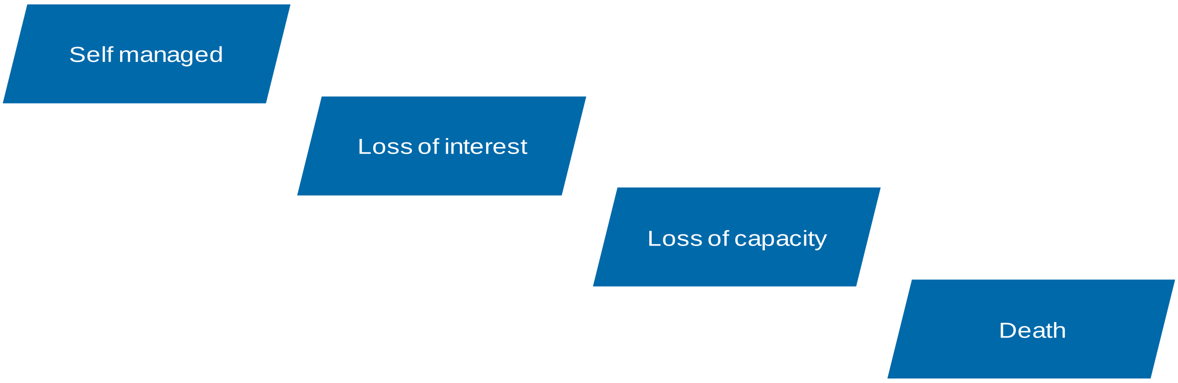
Accordingly, these Superannuation tax changes have a fundamental impact on most people's asset succession planning.

At a minimum you therefore need to:

1. Check the adequacy of your Superannuation Binding Beneficiary Nomination. It is this document which will direct the Trustees of your Fund as to how to distribute your accrued superannuation entitlements within Accumulation mode in your Fund on your death; and
2. Check your Pension documentation specifically to see if you have nominated a Reversionary Beneficiary to receive your pension on your death. If not now is the time to consider this as part of an overall review of the adequacy of your asset succession strategy.

Planning the succession of the management your Personal Finances

I believe your personal financial lifecycle can be divided into four distinct phases:



For those who self-manage their finances currently, consideration needs to be given to preparing a succession plan for the time that you will be either unwilling or unable to manage such matters for yourself.

Generally, most people have documented a strategy for self-managing their assets. It is also likely you have made the effort to have prepared asset succession documentation that articulates your wishes with respect to the transitioning of assets you own and control on your death.

I have found however, there is an exposure with many people with respect to the development of a management plan for transitioning control of your investment assets where you either lose interest in managing these for yourself, or you suffer a loss of mental capacity. With our aging population this will become a growing issue.

I have developed a detailed checklist for people to determine the adequacy of their strategic planning for all four phases of your financial life. Please contact me for a copy of this checklist for you to self-assess the adequacy of your own plan,

Action required

> *"Now hear, you see. It takes all the running you can do, to keep in the same place.*
>
> *If you want to get somewhere else, you must run at least twice as fast as that!"*

Lewis Carroll
(Alice in Wonderland)

Each persons' situation is different.

There is not one generic solution to address in these changes for everybody.

However, time is on the wing.

Actions need to take place prior to 30 June 2017.

Accordingly, please contact me so we can collectively work out how to address the impact of these changes on your own personal financial circumstances.

Anthony Jackson

Anthony Jackson
February 2017