barnett
financial planning

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Big changes are coming to super

On 1 July 2017 big changes are coming to super. While the changes are wide-ranging, most relate to the super contributions cap. That is, how much you're allowed to put into super, using either your before or after tax income.

Changes to concessional contributions

Concessional contributions are contributions you can make to super with your before-tax salary. For most, concessional contributions are taxed at just 15 per cent – not your marginal tax rate.

What are the new caps for concessional contributions?

The Government has reduced the cap on concessional contributions as shown in the following table:

Age	Current annual cap*	Annual cap after 1 July 2017*
Under 50	$30,000	$25,000
50 or over	$35,000	$25,000

* Remember – your employer's 9.5% compulsory contribution counts towards your concessional contributions cap

Carry forward unused contributions

While the annual concessional contribution cap is coming down, from 1 July 2018 new rules let people with super balances under $500,000, 'carry forward' up to five years of the unused portion of their concessional contributions cap.

Case study:

Mary makes $10,000 in concessional contributions in the 2018/19 financial year, and $15,000 in concessional contributions in the 2019/20 financial year.

In the 2020/21 financial year, Mary will be able to 'carry forward' her unused cap of $25,000 from the previous two financial years, plus the $25,000 limit for the year. This means Mary can contribute a total of $50,000 in that year, instead of just $25,000.

Contributions tax

Currently concessional contributions are taxed at 15 per cent for people who earn less than $300,000 climbing to 30 per cent for those who earn more.

From 1 July 2017, the 30 per cent tax rate commences on incomes of $250,000 or more.

Changes to non-concessional contributions

Non-concessional contributions (NCCs) are those contributions you make to super with your after-tax dollars.

What are the new caps for NCCs?

The Government has reduced the cap on non-concessional contributions from 1 July 2017 as shown in the following table:

Current	After 1 July 2017
$180,000 annually **or** up to $540,000 over three years for those under 65	$100,000 annually **or** up to $300,000 over three years for those under 65

In addition to the lower annual caps, people with a super balance of more than $1.6 million will not be able to make non-concessional contributions from 1 July 2017.

The 'bring forward' rule is also changing

The 'bring forward' rule is a taxation rule that lets you contribute up to three times the NCC cap in a financial year (for those under age 65 at any time in the year), by bringing forward your allowed contribution from the next two financial years.

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With the new $1.6 million super balance cap, the number of years you can bring forward your contribution may be limited by your super balance as shown in the following table:

Balance is between	Maximum NCC cap available
$0 – $1.4 million	$300,000 (up to three years annual cap)
$1.4m – $1.5m	$200,000 (up to two years annual cap)
$1.5m – $1.6m	$100,000 (no bring forwards available)
$1.6m+	Nil

Have you already triggered the bring-forward rule?

If you trigger, or have triggered, the bring-forward rule in 2015/16 and 2016/17 and have not fully used your NCC bring-forward limit before 1 July 2017, your available limit will be lowered as follows:

1. If you triggered the bring-forward cap in 2015/16, your cap will be reduced from $540,000 to $460,000 ($180,000 for 2015/16 +$180,000 for 2016/17+ $100,000 for 2017/18)
2. If you trigger the bring-forward cap in 2016/17, your cap will be reduced to $380,000 ($180,000 + $100,000 + $100,000).

What else is changing?

Removing the earnings exemption for assets backing Transition to Retirement pensions

If you're close to retirement, there may be the ability to access your super in a limited fashion through a transition to retirement pension.

Currently, income and capital growth on the investments behind a transition to retirement pension receive the same tax treatment as a full retirement account based pension, meaning these earnings are tax free. From 1 July 2017, investment earnings on assets invested in a transition to retirement pension will be taxed at up to 15 per cent – in line with existing tax rates on accumulation funds.

Removal of the anti-detriment payment

When someone passes away, their super benefit must be paid to a dependant (such as a spouse or child) or their estate. When this payment is a lump sum, some dependants are able to apply for an additional payment which effectively refunds a significant portion of tax paid on earnings and contributions. This 'anti-detriment payment' is being removed for people who pass away after 1 July 2017, and for any death benefits paid after 1 July 2019.

With the changes coming 1 July 2017, the window of opportunity to take advantage of existing limits is closing soon. Talk to us soon to make sure you are making the most of your super.

Can your Will be challenged?

Yes it can, but only in certain situations. While most people try hard to strike a fair balance when they write their Will, sometimes there may be people who are unhappy with how the estate has been divided and decide to challenge it.

There are two main types of 'challenges' in relation to a Will: challenging the validity of the Will itself and claiming for 'family provision'.

Challenging the validity of a Will

This can occur when:

- the strict legal requirements for the creation of a valid Will have not been followed
- the Will-maker did not have 'testamentary capacity', meaning they didn't have the mental capacity to understand the effect of making a Will, the extent of their assets and an appreciation of who could be possible beneficiaries
- the Will-maker was subject to 'undue influence', but this is very hard to prove.

Challenging the lack of family provision

A claim for family provision occurs when a challenger believes they should have received money or assets to provide for their ongoing welfare. They can claim at court that a provision should have been made for them. This is the most common type of challenge.

Separate legislation in each State and Territory allows certain family members or eligible persons to make a claim for provision out of your estate.

Can you prevent challenges to your Will?

Not entirely. However, you can certainly take steps to minimise the likelihood of claims being made, but to do this you need to use a qualified legal professional.

Some of the ways to reduce the likelihood of your Will being challenged are to:

- ensure your Will complies with the formal requirements of the law, including the correct signing of the Will
- ensure any suggested lack of testamentary capacity is dealt with when the Will is made so there is evidence available, if necessary, that supports your 'capacity'
- ensure you are freely making your Will, without any undue influence
- consider any possible claim under the family provision legislation and minimise not only the chances of a claim being made, but also the chances of a claim being successful.

Source: Australian Executor Trustees Limited

For help with your estate planning matters please give us a call.

Money doesn't grow on trees

Children certainly don't come with an instruction manual. From the time they're learning to crawl parents begin teaching their children about right and wrong, personal safety, manners and morals. Over time, children are taught about stranger-danger, healthy eating and personal accountability. Interestingly however, many Australian parents leave out one of the most important survival skills their children will need in the future – how to take care of themselves financially.

Earning, saving and sharing

Children see their parents spend money, on one thing or another, most days. This emphasis on spending can come at the expense of other important money skills – earning, saving and even investing. Teaching children about the less visible aspects of how to manage their personal finances from a young age will have a profound impact on their attitude to money in the future.

It's more about character than coin

Giving children the skills to control their finances is not only beneficial in their financial wellbeing – it also contributes to the forming of their personality and unique attributes. The lessons on self-control, conviction, resourcefulness, contentment and compassion are all valuable in shaping a well-rounded, socially aware and responsible person.

Where do you start?

ASIC's MoneySmart website has teaching resources to help develop financial skills in young people. Resources include e-books, videos and interactive activities. You can visit their website at moneysmart.gov.au/teaching

And around the home, there are some simple things you can do to help your children on the right track:

- For young children, encourage your children to play 'shop' at home
- Let them help with putting coins in the parking meter or vending machine
- Set a goal to save money for their next toy. Make sure it's not too expensive – it's important it's something they can achieve in a realistic timeframe
- Occasionally let your children watch you do online banking so they can see how your money is managed each month to pay for recurring and unexpected living expenses.
- For older children, encourage them to earn their pocket money by doing age-appropriate things around the house – and consider putting the money directly in a bank account to help create a savings routine.
- For teenage children, teach them about the value of compounding interest and consider establishing a trust in their name. That way they can see the benefits of longer-term investing in managed fund or shares. This can be a daunting task for a parent and it may be useful to talk to us about different ways this can be done.

Talk to your children about money and keep talking to them about it as they grow. The lessons learned will stay with them for life.