



# Go-To Guide

## Concessional and non-concessional contributions caps

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# Key Advice Issues



## Concessional contribution cap reduction

The concessional contribution cap will reduce to \$25,000 per annum for all taxpayers from 1 July 2017.

Fund members should look to maximise the current contribution caps for 2016-17 which are:

- \$30,000 for people aged under 49 on 30 June 2016, and
- \$35,000 for people aged 49 and over on 30 June 2016.

Member age on 30/6	2015-16	2016-17	2017-18
<49	\$30,000	\$30,000	\$25,000
49+	\$35,000	\$35,000	

Caution should be taken for reserving strategies executed in June 2017 as the 2017-18 cap restricts amounts reserved in June 2017 to a maximum of \$25,000.

This means taxpayers 49 and over on 30 June 2016 can have up to \$60,000 in tax deductions for contributions in 2016-17.

Taxpayers aged under 49 on 30 June 2016 can have up to \$55,000 in tax deductions for contributions in 2016-17.

2016-2017	2017-2018
<p>Contributions allocated to SMSF: \$35,000</p> <p>Tax deduction: \$60,000</p>	<p>Contribution allocated to SMSF: \$25,000</p> <p>Full contribution cap used</p>

The concessional cap will be indexed going forward in \$2,500 increments in line with Average Weekly Ordinary Time Earnings.

## Non-concessional contribution cap reduction

The Government has abandoned its proposed \$500,000 lifetime cap on non-concessional contributions (NCC) and instead reduced the annual NCC to \$100,000 and restricted access to taxpayers with a total superannuation balance of under \$1.6 million.

The \$180,000 annual NCC cap for 2016-17 is available to people who satisfy the conditions for making a NCC under the current rules.

The \$540,000 bring forward rule will apply for the remainder of 2016-17 income year for those eligible. If the bring forward provision is triggered in 2016-17 but the full \$540,000 amount is not used, then the bring forward cap available in 2017-18 and 2018-19 will be reduced.

- Triggered in 2015-16 – \$460,000 transitional cap = \$180k (15-16) + \$180k (16-17) + \$100k (16-17)
- Triggered in 2016-17 – \$380,000 transitional cap = \$180k (16-17) + \$100k (17-18) + \$100k (18-19)

Post 1 July 2017 taxpayers with over \$1.6 million in superannuation will not be able to make NCCs to superannuation.

Also, taxpayers who are approaching a balance of \$1.6 million will have their ability to use the bring forward rule reduced. Where a superannuation balance is between \$1.4 million and \$1.5 million the bring forward rule will be limited to a maximum of \$200,000. In addition, where a superannuation balance is between \$1.5 million and \$1.6 million the bring forward rule will be limited to a maximum of \$100,000.

Superannuation Balance	Contribution and bring forward available
Less than \$1.3 million	3 years (\$300,000)
\$1.3 - <\$1.4 million	3 years (\$300,000)
\$1.4 - <\$1.5 million	2 years (\$200,000)
\$1.5 - <\$1.6 million	1 year (\$100,000)
\$1.6 million	Nil

Also, it is important to remember the fund capped contribution limits for NCCs

- For a member aged 65 or over but under 75 on 1 July the fund-capped contribution limit is the non-concessional contributions cap for that financial year (e.g. \$100,000 in 2017-18).
- For a member aged 64 or under on 1 July the fund-capped contribution limit is three times the non-concessional contributions cap for that financial year (e.g. \$300,000 in 2017-18).

Taxpayers are not eligible for government co-contributions if they exceed their annual non-concessional cap or have a total superannuation balance \$1.6 million or above on 30 June of the preceding financial year.

A Government fact sheet on the NCC changes is available [here](#).

## Concessional contributions

Does the fund member understand that concessional contribution cap will be reduced to \$25,000 on 1 July 2017?

Determine the age the fund member was on 30 June 2016:

- ⇒ If they were 49 or above they are entitled to \$35,000 in concessional contributions for 2016-17.
- ⇒ If they were under 49 they are entitled to \$30,000 in concessional contributions for 2016-17.

What are the individual's contribution arrangements?

- ⇒ Employer contributions?
- ⇒ Regular salary sacrifice?
- ⇒ Personal deductible contributions?
- ⇒ Premiums for insurance in their SMSF?

Can they make additional concessional contributions to take advantage of the existing higher limits before 1 July 2017?

- ⇒ If they are aged between 65 and 74 at the time of the contribution, they must pass the work test.
- ⇒ Voluntary contributions cannot be made from the age 75 onwards.
- ⇒ Increase or begin salary sacrifice.
- ⇒ Make deductible personal contributions.

## Non-concessional contributions

Is the fund member aware of the lower annual \$100,000 non-concessional contribution cap from 1 July 2017?

Is the member aged 65 or over but under 75 on 1 July 2016?

- ⇒ Yes – they are restricted to the fund-capped contribution limit which is the non-concessional contributions cap for the financial year - \$180,000 in 2016-17; and
- ⇒ They must satisfy the work test to make contributions.

Is the member aged 64 or under on 1 July 2016?

- ⇒ Yes – their fund-capped contribution limit is three times the non-concessional contributions cap for that financial year (e.g. \$540,000 in 2017-18).
- ⇒ The member does not need to satisfy the work test to make non-concessional contributions.

Has the member triggered the bring forward rule in the 2016-17 year or previous years but not use their full \$540,000 bring forward?

- ⇒ If so, their NCC contributions are limited by the transitional rules in the coming years
- ⇒ Triggered in 2015-16 – \$460,000 transitional cap = \$180k (15-16) + \$180k (16-17) + \$100k (17-18)
- ⇒ Triggered in 2016-17 – \$380,000 transitional cap = \$180k (16-17) + \$100k (17-18) + \$100k (18-19)

If the member has not already used the bring forward in the last three years, they can contribute up to \$540,000 in NCCs in 2016-17.

## NCC transitional rules

### **NCC Cap pre-& post-1 July 2017**

Harry is 57 years old and has \$320,000 in his SMSF in accumulation phase. He has just received an unexpected legacy from his aunt of \$120,000. On 31 December 2016, he made an NCC of \$115,000 into his SMSF.

In August 2017, Harry decides to in specie transfer a large portion of a personal share portfolio valued at \$98,000 into his SMSF. Under the new NCC cap rules, he can make this contribution into his SMSF as it is under the new cap of \$100,000.

Harry did not trigger the bring forward rule in December 2016 (as he contributed less than \$180,000 as an NCC) and so cannot access the transitional NCC cap which may have allowed him to make a larger in specie NCC at that time.

### **Transitional non-concessional contribution cap – Example 1**

James is 54 and has \$1,120,000 in his SMSF. He currently owns a share portfolio valued at \$520,000 in his own name. He has the view that the market is about to increase substantially and has decided to transfer the whole of the share portfolio into his SMSF. As James is employed, he will not be able to claim a personal tax deduction for any of the contribution made.

If James was to make the transfer before 1 July 2017, the contribution will count towards his NCC cap and he will trigger the bring forward rule, allowing him to contribute up to \$540,000.

However, as James has not used his NCC cap entirely before 1 July 2017, he will fall under the transitional NCC cap rules.

As the bring forward rule was triggered in the 2016/17 financial year, his transitional cap for the three years commencing on 1 July 2016, will be \$380,000. This consists of \$180,000 for the 2016/17 year, and \$100,000 for each of the 2017/18 and 2018/19 financial years.

As James' contribution of \$520,000 exceeds his transitional NCC cap, he can make no further NCCs until the 2019/2020 financial year. However, as he made his contribution of \$520,000 before 1 July 2017, the contribution can remain in his SMSF as part of his account balance. This is the case even when, as illustrated here, that the NCC will cause his account balance to exceed the \$1.6 million cap. This limitation on NCCs applies only to contributions made on or after 1 July 2017.

### **Transitional non-concessional contribution cap – Example 2**

George is 62 years of age and has \$1.51 million in his SMSF account. His long-term strategy has been to downsize his family home and contribute any excess not required to purchase smaller residential accommodation into his SMSF as a non-concessional contribution.

Earlier in the 2016/17 year, George had also sold an investment property and had contributed the net proceeds of \$195,000 into his SMSF. This amount is included in his current account balance of \$1.51 million.

George sells his family home in the 2017/18 financial year and has \$200,000 to contribute to his SMSF. He calculates his transitional non-concessional contribution cap as \$380,000 as the bring forward provision was triggered in the 2016/17 financial year (see above examples). Under the transitional provisions, George is restricted to an additional contribution of \$185,000, being the transitional cap of \$380,000 less the non-concessional contribution of \$195,000 made in the 2016/17 year.

However, an additional restriction on the non-concessional contribution that George can make to his SMSF also applies on or after 1 July 2017. As explained above, where George's account balance is between \$1.5 and \$1.6 million at 30 June, he is restricted to making no more than \$100,000 as a non-concessional contribution in the next financial year, regardless of his transitional non-concessional contribution cap. As a consequence, George will only be able to contribute \$100,000 as a non-concessional contribution to his SMSF in the 2017/18 financial year. Once this contribution has been made and George's account balance exceeds \$1.6 million, he will not be able to make any further NCCs to his SMSF or any other superannuation arrangements.

## Concessional Contributions (CC)



### **Plan for the change in CC caps next year**

Cindy, aged 52, is currently salary sacrificing into her SMSF up to her current CC limit of \$35,000. Her employer is contributing \$11,000 as a Superannuation Guarantee contribution and the balance is coming out of Cindy's remuneration package. She is paid fortnightly and her salary sacrifice contributions are made to her SMSF at the same time.

Given this scenario, it is important that Cindy renegotiates her remuneration package to reduce her salary sacrifice contributions that are made for her by her employer each fortnight to reflect the reduced CC cap operating from 1 July 2017 onwards. Otherwise, she will have excess CCs in the 2017/18 financial year which will need to be dealt with under the excess CCs rules as they currently apply.

### **Reserving strategy for CCs**

Alice has realised a significant capital gain on sale of her business which she operated as a sole trader in her own name. She has been advised to make a large deductible contribution to her SMSF. \$35,000 will count towards this year's CC cap, with the balance being held in a reserve and allocated next financial year. Initially, her accountant told her to make a \$70,000 CC, split evenly between the two years. However, they now contacted her to say that the strategy is impacted by the change in the CC cap limits which apply from 1 July 2017. She will now only be able to contribute \$60,000, with \$35,000 relating to this financial year and \$25,000 allocated from a reserve next financial year which is the maximum CC which can be made for that year.