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Bucks & Dough

IDEAS, NEWS AND THOUGHTS TO BUILD YOUR MONEY KNOWLEDGE

The new Transfer Cap explained—pay attention!

In my last newsletter I made a brief mention of the new Transfer Balance Cap, and it is important to note that everybody will now be responsible for monitoring their own Transfer Balance Cap.

For the members of accumulation funds like PSSap or Australian Super the rules are fairly straightforward as you will not be able to transfer more than $1.6 million total from your super funds into the retirement phase to construct a superannuation pension for retirement. The excess can remain in the super fund but will be taxed at 15% on earnings where as money in the pension phase does not pay tax on earnings.

The new rules do have significant implications however for members of defined benefit schemes (like the PSS and CSS) and have retired (or about to) and especially those with better than average pension amounts. The rules state that these pensions will have a value that counts towards the $1.6m cap by simply multiplying the full value of the pensions by 16. The pension amount used for the calculation is the gross pension including all tax components (tax free, taxable and untaxed amounts). Therefore anyone with a defined benefits pension of more than $100,000 will exceed the cap. If your current defined benefit pension amount (or future calculation) is in excess of this $100,000 limit you generally cannot commute portions of the pension and hence you will see no reduction in the size of your gross pension however it will now receive a different tax treatment.

Currently the unfunded components of these pensions are taxed at your full marginal tax rate but you receive a 10% tax offset on this amount once you reached the age of 60. With the new rules there will be no offset applied for any amounts over the $100,000 pension level. To further complicate this, the rules specify an order that the tax components are considered. The unfunded (untaxed) component is taken into consideration last.

Take the example of a PSS pensioner receiving a $125,000 pension with $60,000 coming from the tax free and taxable components and the remaining $65,000 from the untaxed component then at 60 the first $60,000 would remain tax free like now but then the untaxed component is "stacked" on top of this amount. The first $40,000 of the untaxed component would be taxed at the marginal rate and receive a 10% tax offset ($4,000) and the remaining offset of $2,500 from the original $6,500 would be lost. Remember that a tax offset is not a tax deduction. An offset will reduce your overall tax liability by that amount which is usually a very beneficial reduction.

For CSS pensioners the situation can be very confusing but it is similar in the way the tax components are "stacked" . The non-indexed pension will be considered first (as this is constructed from the taxed and taxable components) and the value of the standard pension (indexed pension) will be added and any excess over the $100,000 limit will not receive the offset. This may now impact on those members who have increased the size of their non indexed pension by making larger supplementary contributions along the way or a lump sum contribution. (continued over page)

Will your super benefits go where you want them to?

Superannuation is a trustee arrangement and hence the trustee (generally the fund's board) has discretion when it comes to distributing assets from a super fund on death of the member if you do not nominate a beneficiary. Even if you have completed a nomination the board still has discretion but generally respects the nomination. To ensure your superannuation assets flow to the person you wish you need to complete a Binding Death Nomination form (to be witnessed and signed by two independent adults who are not beneficiaries. This forces the fund to act on your wishes. You can however only nominate partners, children and limited dependents. You can generally tick a box to elect to send it to the executor of your will where the proceeds will be handled by your will. The Binding Nomination does expire however and you will need to renew this generally every three years. There is no nomination process for members of the PSS or CSS as their defined benefits always flows to partners, children and then estate in that order.

Transfer Balance Caps –continued

The important point to mention here is that if you did not contribute the extra supplementary money to the CSS but instead placed it into an accumulation superfund this money could not be moved to a tax free pension account if the CSS pensions combined added up to $100,000 or more. Any excess remaining in the accumulation phase would continue to be taxed at 15% on earnings. Is the extra taxation cost prohibitive when considering the supplementary contributions can be converted to an annuity style pension payable for life with very generous pension conversion factors. This is something we will have to calculate.

Should you be in the situation where you have a very large non-indexed pension in the CSS (or large taxable and tax free components in the PSS) which total over $100,000 then 50% of this is included in your assessable income even before the untaxed component is considered!

The whole situation becomes even more complicated when we consider what will happen if a member on a pension receives another reversionary pension from a spouse who passes away. There will be situations that commuting flexible pensions will be necessary or sensible but if the partner was also a defined benefits pensioner these pensions cannot be commuted and hence adding to the recipients overall taxation ramifications.

The Transfer Balance Cap is initially $1.6million for the 2017-18 financial year but will be subjected to indexation in $100,000 increments on an annual basis in line with CPI. Once the superannuation income stream has commenced then the changes in the value of the supporting interest are not counted. Therefore if fund earnings or pension payments change the account value the cap is not considered. Similarly for defined benefits pensioners the half yearly CPI increases in the pension will not be taken into consideration.

For anyone with a Self Managed Super Fund you also need to understand the rules around Capital Gains Tax issues relating to removing excess amounts and putting them back into accumulation phase to prevent exceeding the new caps.

There is no way I have covered all the issues relating to these rules in this short article and you will be the one responsible to ensure you maintain your super within the correct boundaries, so pay attention, learn and get help. That is what I am here for!

Don't Live in Canberra?

The number of meetings that I am now having with clients that do not live in Canberra is growing every week. I had my first overseas client last week calling in from Europe. I have gone international!

As people become aware of the power of technology they understand that they do not need to wait for me to visit their area.

If you book an online meeting I request you send me copies of your statements and documents a few days before our scheduled meeting. I can then upload them to my computer and using my webinar software you can see what I am pointing to and obviously ask questions at anytime . If your workplace has strict firewall protection then a simple phone call may be necessary but if I am armed with your documents early the discussion can still contain in-depth information.

If you do book an online meeting let me know where you are so I understand the time zone issues.

Quotes to Ponder

In the book of things people more often do wrong than right, investing must certainly top the list, followed closely by wallpapering and eating artichokes.

Robert Klein, Comedian

The difference between playing the stock market and the horses is that one of the horses must win

Joey Adams

Those who condemn wealth are those who have none and see no chance of getting it

William Penn Patrick

And my favourite:

An investment in knowledge pays the best interest

Benjamin Franklin

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