SMSF NEWSLETTER

Sep 2016

SPECIAL POINTS OF INTEREST:

1. Social security to affect age pension recipients
2. Update on the progress of the superannuation reforms
3. ATO encourages SMSFs to come clean
4. Recent research into spending patterns of retirees

INSIDE THIS ISSUE:

SOCIAL SECURITY CHANGES FROM 1 JAN 2017

Important changes to the pension 'assets test' start from 1 January 2017. These changes may affect the amount of the Age Pension received by some individuals.

INFO–These changes are law. More information on the amendments can be accessed from the Department of Human Services website here.

Changes to the 'assets test'

Eligibility to the Age Pension is subject to both the 'income test' and the 'assets test'. The changes discussed in this newsletter affect individuals receiving an Age Pension who are subject to the assets test.

Key points to note about the pension assets test are:

- the pension rate is not reduced if an individual's assets are within the assets test free area; and
- the value of assets exceeding this area reduce the pension rate – this is called the 'assets taper rate'. Pension entitlements currently reduce by $1.50 per fortnight for every $1,000 of assets over the assets test free area.

Two key changes to the assets test applying from 1 January 2017 are outlined below.

Increase in the assets test free area

The assets test free area will increase from 1 January 2017, as shown:

	Current threshold (1 July 2016)	New threshold from 1 Jan 2017
Homeowners		
Single	$209,000	$250,000
Couple (combined)	$296,500	$375,000
Non-homeowners		
Single	$360,500	$450,000
Couple (combined)	$448,000	$575,000

This change may lead to a pension increase for some individuals.

Increase in taper rate

The existing taper rate of $1.50 for every $1,000 of assets above the above test free area will rise to $3.00 for every $1,000 of assets from 1 January 2017.

WHAT THIS MEANS–The steeper taper rate will reduce the Age Pension for some pensioners with assets above the assets test free area. Pensioners with significant assets could lose their entitlement to the Age Pension altogether.

The table below shows both the current and new maximum assets threshold that applies from 1 January 2017. Individuals (or couples) with assets over the assets threshold will lose their entitlement to the Age Pension (transitional rate pensions not shown):

	Current threshold (20 Sep 2016)	New threshold from 1 Jan 2017
Homeowners		
Single	$793,750	$542,500
Couple (combined)	$1,178,500	$816,000
Non-homeowners		
Single	$945,250	$742,500
Couple (combined	$1,330,000	$1,016,000

Health card

Individuals who lose their pension entitlement from 1 January 2017 due to the pension 'assets test' changes will be guaranteed eligibility for a Health Care Card (or Commonwealth Seniors Health Card if over age pension age).

"Of note, Labor does not support the following proposals..."

"...the ATO encourages any contraventions that remain unrectified to be disclosed to it on a voluntary basis."

PROGRESS ON SUPERANNUATION REFORMS

The Government announced a comprehensive package of proposed superannuation reforms during the 2016-17 Federal Budget. Most of these proposals have a commencement date of 1 July 2017.

During September and October 2016, Treasury released a number of fact sheets and draft law setting out how the proposed changes are anticipated to work. The facts sheets and the draft law are available here.

Where to from here?

At the time of writing, the proposals had not yet been introduced into Parliament and, therefore, have not been legislated. At this stage, it is uncertain whether all of the proposed changes will be legislated.

That is, Labor has stated that it does not support all of the superannuation proposals announced by the Government, including:

- allowing all eligible individuals to claim a tax deduction for personal superannuation contributions from 1 July 2017; and
- allowing individuals with superannuation balances below $500,000 to make 'catch-up' concessional contributions from 1 July 2018.

However, Labor appears to support measures such as the introduction of the $1.6 million pension transfer balance cap. It is hoped that Parliament will provide certainty for members sooner rather than later.

LOANS/EARLY ACCESS – ATO UPDATE

The ATO has established a new service allowing SMSF trustees and their advisors to voluntarily notify the ATO of any breaches that remain uncorrected.

INFO–Over half of all voluntary disclosures to the ATO relate to SMSFs lending money and members accessing their retirement savings before they are entitled to do so.

Although an SMSF auditor may have already reported the contravention to the ATO, the new service allows SMSF trustees and their advisors to provide the ATO with a plan to fix the breach.

Initially, the ATO recommends trustees work with their advisor to correct any law breaches as soon as possible.

However, the ATO encourages any contraventions that remain uncorrected to be disclosed to it on a voluntary basis. Included in the disclosure should be a plan to stop similar breaches from happening in the future.

If this disclosure is made before the ATO commences an audit, they will take this into account in determining what action they will take, and whether any penalties should be remitted.

SPENDING PATTERNS IN RETIREMENT

The Australian Institute of Superannuation Trustees has released a report into the spending patterns of retirees. Interesting findings from the report are highlighted below.

- about 80% of retirees aged 65 to 85 who own their own home reported expenditure below a 'modest' standard ($23,797 for singles and $34,226 for couples);
- the current retired generation is the wealthiest in Australian history, with household wealth and income increasing with each successive survey;
- today's retirees are spending more money compared to similar-aged retirees surveyed 8 years prior;
- self-funded or partly self-funded retirees enjoy a higher standard of living compared to those who rely on the Age Pension. The median expenditure for self-funded retirees was $30,000, and only $19,000 for those reliant on the Age Pension; and
- retirees who do not own their own home or live alone have a greater risk of experiencing financial hardship.