Centuria

Super rules have changed.
Have your opportunities changed as well?

Tax-effective plans to invest your savings outside of super could be your best response to recent changes.

From 1 July 2017, major changes to the superannuation rules announced in the 2016 Federal Budget came into effect. Many people will no longer be able to make non-concessional (after-tax) contributions to super in the future. For people looking for tax-effective investments, now may be a good time to look at alternatives. Neil Rogan, General Manager, Investment Bonds for Centuria, explains who is better off under the changes and how investment bonds might suit those who are adversely affected.

Some people may benefit from superannuation changes

In line with the government's goal to improve the fairness and sustainability of the super system, the good news is that many Australians with lower super balances or lower or irregular incomes will find it easier to save for retirement. The improvements include:

- A carry forward of unused concessional contributions for up to five years, effective 1 July 2018 and starting in the 2019/2020 financial year. This applies for people who have less than $500,000 in superannuation.
- A tax deduction for personal super contributions for most people under the age of 75 (and subject to the work test between ages 65 and 74) from 1 July 2017.
- A low-income superannuation tax offset for eligible people who have an adjusted taxable income up to $37,000, subject to certain caps.

These points are an abbreviated summary of the changes and you should check your personal circumstances with your adviser or the Australian Tax Office website (www.ato.gov.au/Individuals/Super/Super-changes).

Some people may need to consider alternatives

For Australians earning higher salaries or with larger super balances, the changes will reduce their ability to use superannuation to grow their wealth.

You need to know your **total superannuation balance.** It comprises all your super, pensions or retirement savings accounts. If this balance is above the **transfer balance cap** as at 30 June of the previous financial year, **you will not be able to make further non-concessional contributions.**

Let's be clear on exactly what this means for 2017/2018. The transfer balance cap is currently $1.6 million. If you have a total amount in any form of super greater than $1.6 million, you cannot make additional after-tax contributions. This also means you can no longer use the bring-forward rule which allowed larger non-concessional contributions in one year.

The transfer balance cap itself is a limit on the amount you can transfer from your accumulation super amount into a 'retirement phase' pension account.

Many people are confusing these two limits because they are both currently $1.6 million, but they are different restrictions.

These are major changes for wealthier Australians, who may wish to consider alternatives to invest their money for the long-term in a tax efficient vehicle.

With these changes in mind, some questions you may need to consider include:

1. Do you have more than $1.6 million in a 'retirement phase' pension account?

Australians with more than $1.6 million in a tax free 'retirement phase' pension account will have six months to transfer the excess, either back into the accumulation phase, or out of the super system entirely. According to The Association of Superannuation Funds of Australia (ASFA), this change is likely to affect around 110,000 people.

2. Do you make concessional contributions to your super?

Concessional contributions are now limited to $25,000 per annum, down from $35,000 for people 49 years and older and $30,000 for everyone else. ASFA says that up to 400,000 Australians will be affected by this change, because more than 250,000 people currently make contributions greater than $25,000 per year.

3. Do you make additional non-concessional (or after tax) contributions to your super?

For those who have not exceeded their total superannuation limit, it will no longer be possible to make more than $100,000 per annum of non-concessional contributions to super. This is a reduction from $180,000 per annum and will affect around 80,000 people, according to ASFA. Australians under the age of 65 will still have the opportunity to bring forward two years of concessional contributions, up to $300,000 in a single financial year, again subject to other caps.

4. Do you have a Transition to Retirement pension?

Transition to Retirement (TTR) income streams assist people to move into retirement by allowing access to a limited amount of super. They were popular because the earnings on the assets in the underlying fund were tax-free. However, from 1 July 2017, earnings will be taxed at 15%; the same rate as earnings in the accumulation phase of super. Many people are expected to close their TTR pensions.

Tax-effective strategies to help grow your wealth

With limits to superannuation now in place, investment bonds could be a suitable tax-effective alternative to invest for retirement and grow your wealth. With marginal tax rates on personal income as high as 45% (plus a Medicare levy of 2%), many investors are looking for new ways to invest their retirement savings or other money.

Investment bonds are simple and flexible, and offer investment options across a range of different asset classes and portfolio combinations. They are tax-free in the hands of the investor if held for 10 years, but funds can also be accessed at any time if required.

Key benefits of an investment bond:

- Tax on returns are paid within the bond structure at the company rate of a maximum of 30%. If the underlying portfolio contains equities with franking credits, the effective tax rate paid may be less.
- There is no personal tax payable on withdrawals made from the investment bond after the bond is held for 10 years.
- Returns do not need to be included in your personal tax return, because investment returns are re-invested and not distributed.
- Investment bonds do not form part of your estate and may be left to a nominated beneficiary (or beneficiaries), who will receive all proceeds tax free on the death of the life insured.
- Investment bonds may offer protection from creditors in the case of bankruptcy.
- Investment bonds are quick and easy to set up.
- There is no limit on the initial investment amount in the first year, although additional investments must not exceed 125% of the prior year's contribution for the 10 year rule to apply.

How an investment bond works

An investment bond is an insurance policy, with a life insured and a nominated beneficiary. It operates like a tax-paid managed fund. Different investment options in different asset classes and combinations of asset classes are available, depending on the investor's investment horizon and objectives.

Income earned from the underlying investment portfolio is taxed at the company rate of 30% and paid by the bond issuer within the bond. All returns from the underlying portfolio of investments are re-invested into the bond and not distributed to the investor. As a result, there is no need to include earnings from the bond in your personal tax return.

There is no limit to the amount which can be invested in an investment bond, and additional contributions can be made each year, up to 125% of the previous year's contribution.

If the bond is held for 10 years, all proceeds (both capital and income returns) are distributed tax-free, and can be paid in a lump sum or as installments. Unlike super, funds can be accessed at any time, but some of the tax-effectiveness will be lost if this happens before 10 years.

Please note this is general information and does not consider the circumstances of any individual. It is based on an understanding of current legislation, but no warranty if given for its accuracy. Any person intending to act on this information should seek the assistance of a professional adviser.

For more information contact Centuria on 1300 50 50 50 or visit www.centuria.com.au/investment-bonds to download the PDS.

Disclaimer: Suitability of a Centuria Investment Bond will depend on a person's circumstances, financial objectives and needs, none of which have been taken into consideration in preparing this document. Prospective investors should obtain and read a copy of the Product Disclosure Statement (PDS) for any investment bond and consider the information in the PDS in light of their circumstances, objectives and needs before making a decision to invest. This document is not an offer to invest in any of Centuria's Investment Bonds.
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