International Property Consultants

How new legislation may affect your superannuation assets

Preston Rowe Paterson is undertaking valuations for clients to ready them for the changes to superannuation regulations. At issue is the aggregate value of assets held in superannuation funds relative to the introduction of the “transfer payment cap”. These changes in the Superannuation (Excess Balance Tax) Imposition Act 2016, which may lead to a need to value your SMSF real estate assets, are outlined below:

New Transfer Balance Cap for Retirement Phase Accounts

The introduction of a $1.6 million transfer payment cap will restrict the tax free status of retirement phase accounts to $1.6 million. Financially, this will mean that retirees only have the tax advantage to the cap, which may trigger a need to transfer the excess amount back to their accumulate phase accounts.

The accumulation phase accounts are subject to a 15% earnings tax and a 10% capital gains tax, before 01 July 2017. If, at 1 July 2017, the total value of your pre 01 July 2017 retirement phase income is $100,000 more than the cap limit, you have six months to remove the excess without having to pay any excess transfer balance tax. Any funds in excess of this cap will incur an excess transfer balance tax.

Simple Account Based Pensions and Capped Defined Benefit Income streams are the two accounts that will be affected by the transfer balance cap, with any further earnings made on the pensions balance after 01 July 2017, not be required to be withdrawn. Notably, any subsequent investment earnings and losses on your superannuation and pension amounts paid to you will not affect the balance of your transfer balance account. However, as the amount in your pension account declines over time, individuals cannot transfer any more money into their retirement phase account if they have already used up the transfer balance cap.

The balance cap will be indexed in line with CPI each financial year, with only the amount of the remaining cap space to be indexed each year.

The tax concessional treatment under the Transitional Capital Gains Tax (TCG) relief can be applied to some of the capital gains that will apply when the investments are subsequently sold when a pension with more than $1.6 million is restructured into a $1.6 million pension and an accumulation phase account. To be eligible for TCG tax relief, the investment must have been held throughout the pre-commencement period of between 09 November 2016 to 30 June 2017. So if your fund has recently sold a commercial property for $3 million and was sitting on a very large gain, the tax relief may not apply to you.

Change to Non-concessional Contributions Cap

Further changes to non-concessional contributions (NCC) cap will be put in place after 01 July this year, with the Coalition scraping the $500,000 lifetime non-concessional (after tax) contributions cap, and replacing it with an annual $100,000 non-concessional cap. Under the new rules, individuals are allowed to bring forward $300,000 in NCC over a three year period, though are only able to make non-concessional contributions if their total superannuation balance is less than $1.6 million (different concept to the $1.6 million transfer balance cap). Non-concessional limits for the 2016/17 financial year is $180,000 per person, though individuals may be able to access the full bring-forward for three years at $540,000, which makes it an attractive option before changes take place from 01 July 2017.

Changes to Concessional Contributions Cap

The Australian Government have progressively reduced the annual maximum level of individual's concessional contributions, which are taxed at the lower 15 per cent tax rate, with further changes on the way as of 01 July 2017. The current contribution limits of $30,000 for those aged 49 and under and $35,000 for those aged over 50 will be reduced to $25,000 for everyone from 01 July 2017. Those able to do some can still contribute up to the higher concessional levels before the beginning of the new financial year. The government will allow the carry-forward of unused concessional contributions, whereby from 01 July 2018, individuals will be able to carry forward any unused amount of their unused contributions cap on a rolling basis for five years.

Impact on the Property Market

Investing in properties through a self-managed superannuation fund (SMSF) is a popular option for Australians who wish to diversify their portfolios. With the introduction of new superannuation reforms, investors may have to re-evaluate their portfolios with their SMSF.

Over the years, there has been significant increase in investments by individuals in residential and commercial properties through SMSFs. This adds to the large pool of business owners holding their commercial or industrial properties within their fund and paying the SMSF (landlord) rent. If an individual is currently in their retirement phase, their asset base needs to be less than the cap amount, or else they will need to transfer assets into their accumulation account that will attract a tax on earnings of 15%.

Having your property in a SMSF, in a tax sense, is still more beneficial since earnings will still be taxed at 15% instead of your personal income tax rate which could be as high as 49%. It remains to be seen whether the impact of these changes will affect the investment for properties within SMSF, as investors seek to reposition their portfolios relative to the regulation changes.

Preston Rowe Paterson believes that understanding the value of your assets in your SMSF relative to the $1.6m cap will be paramount in order to effectively manage your assets in the transition.

Preston Rowe Paterson Research will be monitoring the progress of the impact of these changes in the coming months.

How we can help you?

If you would like a quote to value your self-managed super fund property relative to the transfer cap payment, please visit the quote page at our national website www.prp.com.au or contact us below.

Greg Sugars
National Director & CEO
Phone 03 9602 0517
0435 911 465

greg.sugars@prp.com.au

Greg Preston
National Director
02 9292 7400
0408 622 400

greg.preston@prpsydney.com.au

Tina Nguyen (article author)
Research Analyst
02 9292 7417
0401 359 076

tina.nguyen@prpsydney.com.au