What do the new super rules mean for me?

In late 2016 superannuation rules changed and most come into effect from 1 July 2017. High-income earners and individuals with large superannuation balances will be most affected. If this is you, read on.

Let's begin with the key modifications:

- new cap of $1.6 million on the amount that can be transferred into tax-free pensions
- income threshold, including concessional (pre-tax) superannuation contributions, at which contributions are taxed at 30% will reduce from $300,000 to $250,000 a year
- non-concessional (post-tax) contributions limit falls from $180,000 to $100,000 a year, or $300,000 within three years
- cap on concessional contributions reduces from $30,000 (or $35,000 for over-50s) to $25,000 a year

These changes further restrict the amount of money that can be deposited within the low-tax superannuation environment, spurring the search for alternative, tax-advantaged investment structures. So, what are the options?

Don't dismiss super

It's still worth using super's concessional tax rates up to the limits allowed. For example, if you have an existing tax-free pension with a balance of more than $1.6 million on 1 July 2017, the surplus will need to be rolled back into the accumulation phase or withdrawn from super.

While earnings in the accumulation phase are taxed at 15% (10% for capital gains on assets held for over 12 months), that's substantially lower than the tax rates that apply to alternative investment vehicles, and depending on other income, may be below your marginal tax rate.

As for the additional 15% tax on contributions for those earning $250,000 pa or more, remember that the subsequent earnings on those contributions are taxed at 15% only. That means it may still be worthwhile to maximise concessional contributions within permitted limits.

What about insurance bonds?

Once you've hit the limits for concessional and non-concessional super contributions you may look at insurance bonds. These are managed investments that are taxed within the product at the company tax rate,

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currently 30%. That's a 19% saving off the top marginal tax rate of 49% (including Medicare and Budget Repair levies), or a 9% saving for taxpayers with a taxable income between $80,000 and $180,000 a year.

To get the full tax benefit of an insurance bond it must be held for at least 10 years. However, regular contributions can be made to the bond without resetting the start date. After 10 years no additional tax is payable on earnings, with some tax concessions available after 8 years. As tax is handled internally within the bond, provided no withdrawals are made, the earnings do not need to be declared from year to year.

Upgrade the family home

Many would argue the family home is not an investment. Nonetheless, while it's not an income-producer, a principle residence could still generate attractive, tax-free capital gains. Whether it's through extensions and renovations or upsizing to a new home, investing in the roof over your head can sometimes be a financially viable strategy.

Trusts and companies

Family trusts and private companies can provide opportunities to:

- split income with family members on a lower marginal tax rate.
- allow funds to accumulate in a lower tax environment.
- defer some tax, possibly until beneficiaries or members are on a lower marginal tax rate (e.g. after retirement).

Whether trusts or companies are suited to a particular investor depends very much on personal circumstances and on whether the benefits outweigh the complexities and associated costs.

Advice is essential

The latest changes do nothing to simplify the superannuation system while introducing additional pitfalls for the unwary. Expert advice and planning is essential, so don't delay in talking to your Fiducian financial planner about how best to respond to the new rules.

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