AMP FINANCIAL PLANNING

The clock is ticking, super changes are just around the corner

Case Study 2

As you may know, new superannuation rules will take effect on 1 July this year. The coming changes mean you only have a limited time to assess how these changes affect you.

Find out more about the coming changes to super and what they mean for you.

Client has triggered current $540,000 bring-forward limit but has not used it all up

Client characteristics:

- ✓ Client is age <65, or otherwise meets the work test
- ✓ NCC bring-forward was triggered during 2015/16 or 2016/17
- ✓ NCC bring-forward limit (ie $540,000) not fully utilised
- ✓ Assets position: Up to balance of unused $540,000 available for contribution to superannuation

Key points:

- ✓ Individuals who are currently in a previously triggered bring-forward period and who have not yet utilised the maximum $540,000 limit available, will continue to have the ability to utilise the remaining balance (ie up to $540,000) by making additional NCCs before the bring-forward period expires – that is, 3 years from the date it was first triggered.
- ✓ However, where an individual does not fully utilise the $540,000 NCC cap amount by 30 June 2017, a recalculation of the bring-forward cap amount will be required. This will determine the amount of bring-forward they have available in the 2017/18 and/or 2018/19 years.
- ✓ The recalculation (or transitional) rules will broadly be as follows:

  a. If the NCC bring-forward was triggered in the 2015/16 year (and the full $540,000 is not utilised by 30 June 2017), that individual's NCC bring-forward cap amount for that triggered 3 year bring-forward period is recalculated on 1 July 2017 to reflect the proposed lower annual $100,000 NCC cap from that date.

  So instead of $540,000 applying to the already triggered 3 year period, the bring-forward cap amount is on 1 July 2017 recalculated down to $460,000 for that triggered 3 year period.

  This reduced amount is based on the annual cap of $180,000 for both 2015/16 and 2016/17, and the proposed $100,000 cap in 2017/18.

  b. If the NCC bring-forward was triggered in the 2016/17 year (and the full $540,000 is not utilised by 30 June 2017), that individual's NCC bring-forward cap amount for that triggered 3 year bring-forward period is recalculated on 1 July 2017 to reflect the proposed lower annual $100,000 NCC cap from that date.

  So instead of $540,000 applying to the already triggered 3 year period, the bring-forward cap amount is on 1 July 2017 recalculated down to $380,000 for that triggered 3 year period.

  This reduced amount is based on the annual cap of $180,000 for 2016/17, and the proposed $100,000 cap in 2017/18 and 2018/19.
- ✓ Individuals should consider fully utilising any unused/remaining amounts of previously triggered bring-forward NCC cap before 1 July 2017 in order to maximise the amount that is able to be contributed to superannuation as NCC.
- ✓ **Note:** If an individual is aged 65 or older at the time of making a contribution, the individual will need to satisfy the work test requirements.

Case study:

Facts

Jill is 55 and has a superannuation balance of $700,000.

In September 2015 (2015/16 financial year), she contributed $250,000 as NCCs into her super.

She has not made any further NCCs.

Analysis

Jill's $250,000 NCC triggered the 3 year bring-forward using the existing ($540,000 3 year bring-forward) cap, with the first year being 2015/16.

As such, she is able to make additional NCCs of $290,000 before 1 July 2017.

However, if she doesn't utilise the entire triggered $540,000 NCC cap amount by 1 July 2017, from 1 July 2017 her remaining bring-forward NCC cap will be lowered using the transitional rules outlined above.

Accordingly, Jill's remaining bring-forward cap amount will reduce to $460,000 as follows:

– $180,000 for 2015/16

– $180,000 for 2016/17

– $100,000 for 2017/18.

So, Jill will only be able to make further NCCs of up to $210,000 in 2017/18.

Note: Jill could later access the lower NCC annual cap from 2018/19 and contribute up to $100,000 NCCs per financial year (or $300,000 using the bring-forward rule).

It's important you understand how these changes might affect you, speak to your adviser today.

This case study contains information that is general in nature. It does not take into account the objectives, financial situation or needs of any particular person. You need to consider your financial situation and needs before making any decisions based on this information. If you decide to purchase or vary a financial product, your financial adviser, AMP Financial Planning Pty Limited, contact number 131 267, and other companies within the AMP Group may receive fees and other benefits. The fees will be a dollar amount and/or a percentage of either the premium you pay or the value of your investments. Please contact us if you want more information.

This case study is illustrative only and is not an estimate of the investment returns you will receive or fees and costs you will incur.

This case study is based on the following assumptions:

- 5% per year rate of earnings, nil franking credits and no capital gains tax discount;
- 47% personal marginal tax rate and 15% tax rate in superannuation fund; and
- no underlying fees or costs have been considered.

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