EMERSON RANDELL YOUNG

SMSF NEWSLETTER

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SPECIAL POINTS OF INTEREST:

1. **Getting contributions right under the 'bring forward' rule**
2. **The age at which you can access super is increasing**

INSIDE THIS ISSUE:

UNDERSTANDING THE 'BRING FORWARD' RULE

Many SMSF trustees grapple with understanding how the 'bring forward rule' works for non-concessional (ie, after-tax) superannuation contributions. This article explains the operation of this rule.

INFO–Tax of 49% currently applies to contributions that exceed your non-concessional contributions cap. The Government will amend the law from the 2014 income year to allow excess non-concessional contributions to be released from superannuation (plus a deemed earnings amount).

Choosing to withdraw your excess contributions will generally mean that excess non-concessional contributions tax will not be incurred (other tax consequences may arise).

Background – boosting your after-tax contributions

Currently, superannuation contributions are capped to ensure that the superannuation concessions are appropriately targeted. For example, the non-concessional (ie, after-tax) contributions cap applying for the 2015 income year is $180,000.

However, an opportunity may arise for you to make a non-concessional superannuation contribution that exceeds this cap of $180,000. For example, you may receive an inheritance, windfall gain or sell an asset.

One reason for contributing this amount to superannuation instead of leaving the money in your own name is to take advantage of the concessional tax rates applying to income earned in the superannuation environment.

To accommodate larger non-concessional contributions, the 'bring forward' rule allows individuals under age 65 to bring forward two years worth of contributions. More specifically, the 'bring forward' rule automatically applies for the 2015 income year if:

- you are under age 65 at any time during the 2015 income year;
- you have **not** triggered the bring-forward rule in the 2013 nor 2014 income years; and
- you make non-concessional contributions of more than $180,000 during the 2015 income year.

If you trigger the bring-forward rule in the 2015 income year, the following consequences arise:

- the annual non-concessional contribution cap for the 2015, 2016 and 2017 income years is foregone; and
- replaced by a three-year non-concessional contributions cap of $540,000. Hence, you could potentially make a one-off contribution of $540,000, without excess contributions arising.

CASE STUDY–Jessica, aged 46, made the following non-concessional contributions (assume Jessica had not triggered the bring-forward rule in the 2012 nor the 2013 income year):

Income Year	Contribution
2014	$100,000
2015	$190,000
2016	$100,000
2017	$100,000

Jessica will **not** trigger the rule in the 2014 income year because her contribution does not exceed $180,000.

However, the bring-forward rule is activated in the 2015 income year, because her contribution exceeds $180,000. Hence, Jessica's annual non-concessional contributions caps for the 2015 to 2017 income years are replaced with a combined cap of $540,000.

Jessica's contributions of $390,000 made during the 2015 to 2017 income years are within the $540,000 three-year cap, meaning that no excess non-concessional contributions arise for Jessica.

"The superannuation rules are designed to ensure your superannuation savings are accumulated for retirement, thereby reducing your dependency on the Age Pension."

"...all taxpayers born after 30 June 1960 will have a higher preservation age than 55."

LONGER WAIT BEFORE ACCESSING SUPER

The age at which you are generally permitted to access your super will gradually increase from age 55 to age 60 between 1 July 2015 and 1 July 2024. This article discusses the implications of this increase in the 'preservation age'.

What is 'preservation age' and why is it important?

The superannuation rules are designed to ensure your superannuation savings are accumulated for retirement, thereby reducing your dependency on the Age Pension.

To help achieve this, all current-day superannuation contributions made for people under age 65 must be 'preserved' until a condition of release is met. Earnings on these contributions are also generally required to be preserved (exceptions apply).

Once you reach age 'preservation age' (currently age 55) you can access your 'preserved' superannuation savings, as follows:

- **retired**–if you have 'retired' for the purposes of the superannuation rules, you can access your superannuation benefits as a lump sum and/or an account-based pension; or
- **still working**–you can access a transition to retirement income stream.

TIP–If your superannuation benefits are made up of the 'unrestricted non-preserved' component, you can usually access this part of your superannuation savings at any time. You can see the preservation components of your superannuation savings on your member statement in your SMSF's accounts.

Phasing in the changes

The concept of 'preservation age' is critical to determining when you can access your superannuation savings.

Currently, preservation age is 55, but will rise to age 60 over the next nine years or so. The following table outlines how the change in preservation age affects the age at which you can access your retirement savings:

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
From 1 July 1964	60

As you can see from the table above, all individuals **born after 30 June 1960** will have a higher preservation age than 55. Individuals born after this time will generally be unable to access their preserved superannuation benefits in any form until they reach the preservation age in the table.

EXAMPLE–Jean is currently age 57 (she was born on 2 February 1958), and has just permanently retired. Her superannuation savings are all preserved. Jean can access her superannuation savings as a superannuation lump sum and/or an account-based pension.

What if Jean was born 2 Feb 1964?

Based on the table above, Jean could not access her superannuation benefits in any form until she reached age 59 (even though she has 'retired').

Transition to retirement income streams and preservation age

Once you reach 'preservation age', you can start a transition to retirement income stream, even though you may still be working. In contrast to an account-based pension, you are restricted to drawing pension payments of up to 10% of your account balance (generally worked out on 1 July each year).

In line with the gradual increase in the preservation age detailed in the table above, the age at which you can access the transition to retirement income stream will increase for individuals born after 30 June 1960.

EXAMPLE–Francis was born on 1 August 1962, and plans to continue with his full-time employment. Francis cannot access a transition to retirement income stream until his 58th birthday (ie, 1 August 2020).

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