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# The power of being equal

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Superannuation reforms were passed by the Government on 23 November 2016, with the bulk of those changes to apply from 1 July 2017. Here, IOOF comments on the reforms and strategies to equalise super balances.

Part of the reforms introduce two new limits on super balances:
1. A $1.6 million limit for two purposes:
a. Prevent further non-concessional contributions once a client's total super balance reaches $1.6 million
b. Limit the amount of tax free earnings of superannuation pensions by introducing a $1.6 million Transfer Balance Cap (per client).
2. 'Catch up' concessional contributions are only allowed where a person's total super balance does not exceed $500,000.

Where the client is a member of a couple, equalising super balances between spouses [note 1] is a strategy to help keep balances under these new limits.

**What are the benefits?**
Equalising super balances means spreading funds held in super between two people. Implementing this strategy has several benefits:
· Help keep individual limits under $1.6 million or ensure a client's balance does not exceed $500,000 to enable 'catch up' concessional contributions.
· Allow a couple to take advantage of age related conditions such as an older spouse being able to access super at an earlier age than the other spouse, or if one spouse reaches age 60 (and can access super at concessional tax rates) earlier than the other spouse.
· Shelter retirement funds from Centrelink means testing by holding them in a younger spouse's super accumulation fund

**How to equalise super balances?**
Equalisation may be achieved by the following ways:
1. Cashing out and re-contributing super funds to a spouse's super account

2. Super contribution splitting

*Cash out and recontribution to a spouse's super account*

This strategy involves withdrawing part of a client's super account and then recontributing the funds to the spouse's super account.

Before implementing this strategy it is important to check the preservation status and tax components of the super account that the withdrawal will be sourced from. Additionally, the receiving spouse must meet the relevant super contributions rules, such as meeting the work test if they have reached age 65. The receiving spouse's non-concessional contributions cap must also be considered.

Under super laws, lump sum withdrawals can only be made from unrestricted non-preserved super. If the funds are preserved, an appropriate condition of release (such as retirement) must be met to unrestrict the funds.

Additionally, any taxable component could result in taxes applying to super withdrawals. The age of the individual withdrawing the funds, combined with whether the taxable component comprises of element taxed or element untaxed determine the applicable tax rates.

*Super contribution splitting*

This involves directing an individual's concessional contributions made in a prior year to be 'split' to their spouse's super account. The maximum amount that can be split is the lower of 85% of the concessional contributions made in the relevant financial year, or the concessional contributions cap for the relevant financial year.

Conditions for super contribution splitting:

· Only concessional contributions [note 2] from the last financial year can be split. If the entire super balance is to be rolled over or cashed out during the financial year, concessional contributions received by the current fund can be split. However the application to split must be lodged prior to the rollover or cash out.

· The receiving spouse must be either under preservation age, or between preservation age and 65 and not retired [note 3] from the workforce.

Contributions that are split to the spouse's super account do not count towards the spouse's concessional contributions cap. The 'splitting' spouse does not need to meet a work test.

**Case study – John and Gemma**

John, 59, runs a small business. Gemma, 57, works full time as a marketing executive. John's annual income is $60,000 and Gemma earns $200,000 per year. John's super balance is $450,000. Gemma's super balance is $1.4 million. With the upcoming super changes, if Gemma's super balance exceeds the $1.6 million, she will not be able to make further non-concessional contributions. Assuming Gemma maximises her concessional contributions cap every year and decides to split 85% of her concessional contributions to John, the amount split next financial year will be $29,750 [note 4] to John's super account and $21,250 [note 5] in the 2018/2019 financial year. Gemma plans to retire at age 60 – at that time she plans to cash out some of her super balance and re-contribute a larger amount to John's super using his non-concessional cap. This means that their total superannuation funds will be distributed more equally between both of them, which will allow Gemma to contribute more funds to super in the future and also for the couple to have more funds in retirement income streams with earnings exempt from tax.

While the above strategies could be used to help couple clients manage the new super limits from 1 July 2017, there may be other considerations that may make them unsuitable, including potential relationship breakdown, or estate planning issues.

**NOTES:**

1 Includes same sex spouses

2 Concessional contributions include Super Guarantee contributions, salary sacrifice, personal deductible contributions

3 This means being gainfully employed for at least 10 hours per week.

4 85% x $35,000

5 85% x $25,000