Welcome to our latest e-newsletter.
The Coalition has back-tracked on one of its more controversial changes to superannuation announced in this year's Budget, the Tax Office gets tough on business tax debts, and we have an important announcement about the way that we will be providing superannuation advice in future.

In this edition...

Government U-turn on proposed superannuation changes

In breaking news last week, the Government emerged from a party room meeting to announce that it would compromise on a number of its Budget proposals for Superannuation, in an attempt to make them more palatable and secure passage through the Senate.

The most significant announcement related to the changes to non-concessional contributions limits. As a reminder, non-concessional contributions are those amounts put into super from after-tax funds. For example, these may be amounts held in existing savings or received from an inheritance. Because the funds are already taxed, non-concessional contributions incur no further tax in the fund, and future earnings on them are only taxed at 15% up to retirement. It's a great way to improve retirement outcomes by moving investment to the more secure and lower taxed environment of super.

The Government had announced in the Budget that the limits on non-concessional contributions would be reduced, down to a total of $500,000 over the lifetime of the member. Further, eligibility would be backdated to 1st July 2007, such that contributions since that time would count towards the limit. If a member had already made non-concessional contributions that exceeded $500,000 since that date, the opportunity would be forever closed to them.

The compromise now sets the non-concessional limit at $100,000 per annum, to take effect from 1st July 2017. This is effectively nothing more than a reduction in the existing limit of $180,000 per year, and the effective date means that the retrospectivity of the previous measure has been abolished. The opportunity to 'bring forward' three years' worth of contributions into a single year will remain, which means that members can contribute up to $300,000 in any three-year period, down from $540,000 (or 3 years x $180,000). However, it will be accompanied by a new stipulation that prevents those with balances of over $1.6 million in super from making any further non-concessional contributions.

This will be funded at least in part by a couple of other changes to the Budget proposals. Australians aged between 65 and 74 will continue to be subject to the 'work test' in order to make concessional contributions to super, whereas it had been announced that the rules for those in this situation would be made the same as for everyone else. Also, the commencement date for the proposed concessional contributions 'catch-up' will be pushed back to 1st July 2018. This measure is intended to allow those who cannot put their maximum concessional contributions away in certain years to exceed their limit in subsequent years up to the amount of the shortfall (for up to 5 years), i.e. to 'catch up'. It will only apply to those with balances under $500,000, and will particularly benefit those whose work is interrupted by parental leave or having to be a full-time carer, for example. In the current political climate, the almost two-year date for implementation is a lifetime, so it remains to be seen whether this will ultimately survive.

We welcome the relaxation of the non-concessional contributions limits as a compromise that will help to ensure more Australians are able to retire comfortably, however we remain concerned about the measures that are still to proceed, particularly the permanent reduction in the concessional contributions cap to $25,000. This announcement in particular runs contrary to the Government message of greater self-sufficiency in retirement. It also affects many more ordinary Australians.

Ultimately however, both sides of Parliament must do more to improve confidence in superannuation. The months since Budget night have been a study in destabilisation and uncertainty, especially with measures that were effective from Budget night but yet to be legislated, and being as this is only an internal Coalition compromise, the new compromise measures must still find their way through a difficult Senate. It may not yet be the end of the matter.

This level of uncertainty is unprecedented and can only be bad for retirement planning. If these measures have finally now found a form that will allow them to pass into legislation, we can only hope that the Government remains true to its pledge to leave Superannuation alone from hereon out.

If you have any questions about how these changes might affect you, please contact us.

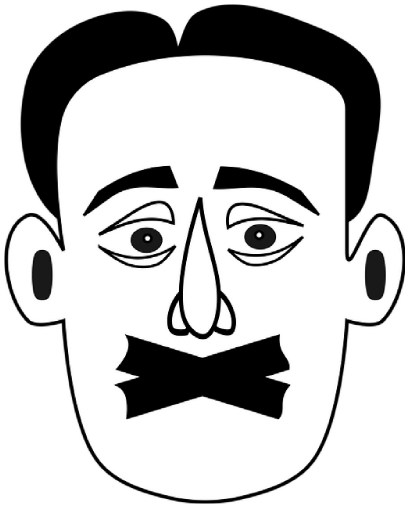
Tax Office to get tougher on business debts

The Australian Taxation Office (ATO) recently signalled its intention to begin recovery action earlier on outstanding business tax debts.

In a recent Fairfax article, a spokesperson for the ATO said that they are reviewing their approach to recovering back taxes after feedback from the community that firmer action was called for.

Ostensibly this may seem like another Tax Office revenue measure, but the rationale is not entirely misplaced. Believe it or not the Tax Office generally takes a relatively lenient approach to the repayment of outstanding tax debts. The thinking is that it's better to improve the likelihood of a full recovery than to take early action and ensure a shortfall. This can mean, in more extreme cases, that payment arrangements are put in place and defaulted on numerous times before the inevitable occurs anyway.

Further, knowing this, some businesses that are already technically insolvent may take advantage of this leniency to trade for longer than they should. The result can be worse than simply lost tax revenue. The ATO is a priority creditor in the event of a wind-up,



Changes to the way we provide SMSF advice

Traditionally accountants have always provided advice about Self-Managed Superannuation Funds (SMSFs) as a part of their structuring and asset protection strategies for people in business. From 1st July 2016 however, an Australian Financial Services License is required to provide advice (other than factual tax advice) in relation to the establishment of SMSFs. This means that you may notice some slight changes to the way we talk about super in future, and while they may be minor, we wanted to take this opportunity to outline them for you.

From 1st July 2016, an SMSF is now itself deemed to be a financial product and as such, even advice about setting one up requires a Financial Services License. Previously accountants were subject to an exemption which allowed them to advise on the establishment of an SMSF (but not on investment products within an SMSF) as a part of the structural, taxation and asset which can mean that if a business is insolvent and yet continues trading, the outcomes are much worse for the remaining creditors - often small-medium businesses themselves. So there can be cases where it's better for the business community as a whole that the Tax Office is tougher, earlier on defaulters.

In announcing this crackdown, the Tax Office has said exactly that. The intention is to ensure that businesses are not allowed to continue trading insolvent when in fact there is a significant accrual of tax debt. The tougher action may include garnishee notices, director fines and more aggressive insolvency proceedings.

It's a reminder yet again for those in business that while there are measures you can take to prevent your personal assets being threatened in the event of a failure (having a company, for example), there are limits. Continuing to trade while insolvent is an action that is considered negligent and has the effect of removing that protection, exposing your personal wealth to fines and claims.

The Tax Office is a creditor just like anyone else, except with considerably more power. If you find yourself unable to pay the tax debts of your business, you should be all the more careful not to fall too far behind by taking advantage of Tax Office payment measures. These concessions should be used for temporary shortfalls only, and you should give early consideration to their impact on your longer term capacity to pay debts as and when they fall due.

protection advice they provide to those in business.

We have always maintained that in order to preserve our independence, we will never provide financial services. We want to be a trusted adviser, and want our clients to be assured that there will never be any ambiguity as to whether we are providing the best possible advice or instead trying to sell a product.

For this reason we are no longer permitted to provide you with advice in relation to an SMSF, other than advice around taxation and other factual information.

It's important to note that as a trustee of an SMSF, you can still choose to make decisions for yourself around the operations of the fund. You can also elect yourself to set one up, and we can do it for you under instruction from you. We can even help you understand what the general pros and cons of Self-Managed Super might be and provide you with advice around the tax implications of particular strategies. But tax is only one factor that you should take into account when making investment decisions, and ultimately the effect of this change is that we can't advise you what is best for you and your specific circumstances.

In practice the change in our service will be minimal. We have always taken a cautious approach with respect to SMSFs. In most cases we have presented facts but left the decision-making to our clients. It simply means that from now on if we're asked to provide specific, customised advice on what is appropriate to your circumstances, including advice in relation to contributions and pensions, we are no longer able to take that next step. That is, we can tell you what a person ***could*** do, but cannot advise you what you ***should*** do.

This will mean that if you require personal guidance and recommendations with respect to your SMSF, you will, in most cases, be required to pay someone a sizable fee for a Statement of Advice. We've made the decision to step back from this space in order to ensure that our relationship with you is not compromised by having to charge this fee.

In cases where we think there could be a benefit in having an SMSF, we will refer you to a licensed financial adviser, or invite you to see an adviser of your own choosing. Once again, to preserve our high standard of financial independence, we will never refer you to anyone from whom we would receive any commission or other remuneration for a referral.

Naturally we would have preferred things to stay as they were, but given this new landscape, we believe that this decision will allow us to continue to focus on our core services, preserve our independence and deliver value for money. If you would like further information, please contact us.