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Changes to Concessional Contributions

Background

A number of measures were introduced in the 2016–17 Federal Budget with the aim of making superannuation fairer and more sustainable. Changes to the treatment of concessional contributions were among these measures. This factsheet provides an overview regarding how these changes impact members of the Defence Force Retirement and Death Benefits (DFRDB) scheme, from 1 July 2017.

What is in this factsheet?

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Personal financial advice

The changes being made to concessional contributions are significant and may impact your financial future. It is crucial that you make the right decision for your needs. To help you achieve the best outcome, we encourage you to speak to a qualified financial planner who understands your scheme and situation.

To make a personal advice service available to you, your super trustee, Commonwealth Superannuation Corporation, has partnered with experienced financial planners from Industry Fund Services. It is ‘fee for service’ advice where you know the exact cost upfront and do not pay commissions. Please note, it generally takes six weeks from when you first contact Industry Fund Services to receive personal advice.

To book or find out more, please call **1300 277 777** or visit **csc.gov.au**



Important

This factsheet is not intended to provide a comprehensive overview of the rules or general workings of concessional contributions. Concessional contributions are the responsibility of the Australian Taxation Office (ATO) and are not a scheme specific measure. More information can be obtained from **ato.gov.au** or from a qualified financial planner.

What changes are being made?

From 1 July 2017, the following changes will apply:

- › DFRDB will be required to calculate and report a ‘notional defined benefit contribution’ against your concessional contributions cap.
- › The concessional contributions cap will decrease to \$25,000 per annum for all members.
- › There will no longer be a higher cap for members aged 49 or older on 30 June.
- › The cap will be indexed in \$2,500 increments in line with Average Weekly Ordinary Time Earnings (AWOTE).

Additionally, a new measure will be introduced from 1 July 2018 to allow members to bring forward any unused cap space and make ‘catch-up’ contributions, providing they have a ‘total superannuation balance’ of less than \$500,000.

Your total superannuation balance is managed by the ATO and includes all amounts held by you in the accumulation and retirement phase. Further information about the calculation of your total superannuation balance will be made available at a later date.

Your unused cap space is the difference between the concessional contributions cap, and how much you have paid in concessional contributions in a financial year across all your superannuation interests.

Calculation of a notional defined benefit contribution

A concessional contribution is a contribution paid into a super fund before any tax is deducted. Concessional contributions are generally taxed at 15% on entry to the scheme.

From 1 July 2017, DFRDB is required to report a notional defined benefit contribution amount toward your concessional contribution cap. Other contributions that are included by the ATO toward your total concessional contribution cap are any concessional contributions made to another fund in that same financial year, such as Superannuation Guarantee (SG) contributions paid to in regard to other employment, SG Ordinary Time Earnings (SG OTE) top up amounts paid to your MilitarySuper ancillary account, and any salary sacrifice contributions.

It should be noted that the calculation of the notional defined benefit component is complex. To assist you, DFRDB are developing a concessional contribution estimator tool to help you manage your concessional contribution cap. It will be available from the DFRDB website. However, we encourage you to seek the services of a licenced financial advisor or accountant for advice about the management of your concessional contributions cap across all your superannuation interests.

Lowering of the concessional contributions cap

The amount of concessional contributions you can make is capped each financial year. This cap applies collectively to all concessional contributions made by you, or on your behalf, regardless of scheme.

Currently, the concessional contributions cap is \$30,000 per financial year, or \$35,000 for members aged 49 or older on 30 June. From 1 July 2017, this cap will be reduced to \$25,000 and there will no longer be a higher cap for members aged 49 or older on 30 June.

The concessional contributions cap is currently indexed in line with AWOTE in increments of \$5,000. From 1 July 2017, it will continue to be indexed in line with AWOTE, but now in \$2,500 increments

What happens if I exceed the concessional contributions cap?

The treatment of contributions in excess of the cap will vary depending on whether the contributions are regarded as defined benefit contributions or accumulation contributions.

Where a DFRDB member exceeds their concessional contributions cap as a result of their defined benefit contributions, they will be regarded as having met their

cap but will not be considered to have exceeded the cap. This means that your DFRDB concessional contributions are protected from removal or other penalties.

If your accumulated concessional contributions such as SG-OTE or any salary sacrifice amounts (paid to MilitarySuper or another fund) are in excess of the cap when combined with your DFRDB notional defined benefit contributions, the ATO will issue you with an excess concessional contributions tax assessment. You can elect to pay this tax in two ways – either through direct payment to the ATO or by requesting the release of accumulated contributions from your other superannuation funds (not DFRDB).

For more information on how concessional contributions will be treated by the ATO for defined benefits schemes, refer to the **ATO Law Companion Guide 2016/11 Guide** available at ato.gov.au/Individuals/Super/Super-changes/

If you make additional concessional contributions outside of the DFRDB or MilitarySuper, you should contact the relevant fund, or the ATO to determine what treatment applies.

What is the new 'catch-up' provision?

The introduction of the concessional contributions 'catch-up' provision will allow members with a 'total superannuation balance' of less than \$500,000 on 30 June each year to access their unused cap space to make additional concessional contributions.

Members will be able to access their unused cap space on a rolling basis for a period of five years. Amounts carried forward that have not been used after five years will expire. Only unused amounts accrued from 1 July 2018 can be carried forward, meaning eligible members will be able to make catch-up concessional contributions from 1 July 2019.

The DFRDB rules do not allow catch-up contributions to be made directly to the fund. However, you may wish to utilise this measure by making additional contributions, like salary sacrifice contributions, to your MilitarySuper Ancillary account or to another fund.

How will I know if I'm going to exceed the concessional contributions cap?

DFRDB is currently developing a concessional contribution cap estimator tool to help you manage your concessional contribution cap. It will be available from the DFRDB website. It is anticipated this tool will be available prior to 1 July 2017. As the final concessional contribution values are not reported until after the end of a financial year, this should be treated as an estimate only.

While DFRDB can provide you with scheme specific information, the ATO will be assessing your concessional contributions for a financial year across all of your superannuation memberships.

We therefore encourage you to seek the services of a licenced financial planner or accountant about the management of your concessional contributions cap across all your superannuation interests.

What do these changes mean for me?

The likelihood of exceeding the concessional contributions cap is now greater, given the lower concessional contribution cap and the requirement for DFRDB to report a notional defined benefit contribution value for the first time. While some DFRDB contributions will be protected from removal or penalties, you will have less cap space to make additional concessional contributions.

Where can I get more information?

We can provide you with information that is specific to DFRDB and your MilitarySuper Ancillary account, however the overall management of the concessional contributions cap is the responsibility of the ATO. They can confirm the amounts reported and whether you have exceeded your cap. Further information can be found at **ato.gov.au**

DFRDB are continuing to work through these changes and will provide more information as it becomes available through our website. Additional information and a series of Frequently Asked Questions (FAQs) are available at **dfrdb.gov.au/2016-17-federal-budget/** which will be updated as more information becomes available.