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SMEs should capitalise on overseas business but don't jeopardise superannuation opportunities says Dennis Tomaras

Monday February 20, 2017. Australian SMEs expanding their operations into overseas marketplaces such as Malaysia are continuing to make decisions that will significantly impact their future financial wellbeing and retirement prospects says Connect Malaysia Principal Consultant Joe Perri.

Commenting further, failure to have a documented exit and succession strategy tops the list with an estimated 90% of SMEs being guilty of this oversight said Perri. "It's amazing to see the depth of research and commitment by business owners when they expand operations internationally – yet the same degree of attention to exit and succession is almost non-existent, especially when so many SMEs are relying on the sale of their business to fund retirement".

Adding his voice, Dennis Tomaras, Partner with leading advisory firm Cornwall Stodart said not contributing to superannuation was like embarking on a long and potentially hazardous ocean journey without a life boat.

"Not having a documented exit and succession strategy is bad enough, but when contributions are missed, the impact on a superannuation account can potentially be in the tens of thousands when the compounding / multiplier effect is factored in", said Tomaras.

"Currently business owners have a superannuation window of opportunity until 30 June 2017, before new and less favourable rules apply from 1 July onwards – and it needs to be considered seriously!"

These new rules were announced in the 2016 Federal Budget with a number of modifications made to these rules subsequent to last year's Budget.

Tomaras summarised the new rules applicable to superannuation funds, and amounts that can be contributed to superannuation from 1 July 2017, as follows –

1. The annual tax deductible amount for all taxpayers will be reduced to $25,000 per annum.
2. Pension balances above $1.6 million will be taxed at 15%, even where the super fund has transitioned into pension mode.
3. The contribution tax on superannuation deductions for those earning more than $250,000 per annum will be increased from 15% to 30%. (The current rules apply the 30% tax rate on taxable income of $300,000 per annum or more.)
4. The maximum, annual, non-deductible contribution for superannuation will be $100,000.
5. Where a superannuation fund already has more than $1.6 million of value as at 1 July 2017, then no further non-deductible amounts will be allowed into the super fund. In other words, funds with such balances will only be allowed to accept the annual $25,000 per annum amount.

In a win for business owners and taxpayers, and an opportunity that should be considered carefully, the current rules that continue to apply to 30 June 2017 are –

1. The annual tax-deductible amount for superannuation contributions is:
    - If under 49 years of age - $30,000; or
    - If 49 and over - $35,000.
2. Pension balances above $1.6 million are not taxed at 15%, where the fund transitions into pension mode.
3. The maximum annual non- deductible amount is $180,000 per annum.

In other words, up to 30 June 2017, taxpayers can still claim a higher tax deductible amount (based on their age) into an eligible superannuation fund and there is a higher non-deductible amount available said Tomaras.

The old and new superannuation rules allow up to 3 years of the so-called "non- deductible" amounts to be paid into a super fund in one year.

Under the rules still applicable to 30 June 2017, if a taxpayer is under 65 years of age and has not used up their non- concessional cap from the previous two financial years, then they will be eligible to invest up to $540,000 as a non-concessional contribution to the super fund before 30 June 2017.

In fact, Tomaras expects to see plenty of advertisements in the media over the next few months promoting non-deductible contributions, up to $540,000, into a superannuation fund before 30 June.

"Even where the business owner taxpayer has say a balance of more than $1.6 million, provided such payments are made into the super fund before 30 June 2017, then the superannuation fund can still accept these amounts, (because they fall within the current rules)", said Tomaras.

"Nonetheless, as this is very much a one-off opportunity, business owners should consider contributing into superannuation (where they have such funds available), before 30 June 2017".

"The problem, of course, after 30 June 2017 is that the non-concessional cap will be reduced to $100,000 for the year ending 30 June 2018. In addition, a further problem will be that if a super fund already has a balance of $1.6 million or more, then no further non-deductible contributions can be made after 1 July 2017".

With the end of the current financial year just a handful of months away, business owners should be considering, the merits of making such additional non-deductible contributions to their super fund before 30 June 2017.

Tomaras acknowledges that for many business owners, the financial reality is that operating a commercial enterprise is a juggling act as they seek to fund the day-to-day demands of their commercial ventures – and of course resources are stretched even further when businesses expand overseas.

While time is still on their side, business owners would be well advised to seek professional expert advice from an accountant or financial planner in order to take advantage of this opportunity concluded Tomaras.

Issued by Connect Malaysia www.connectmalaysia.com.au

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Notes to the editor: Pictured together from left Connect Malaysia Principal Consultant Joe Perri and Cornwall Stodart Partner Dennis Tomaras