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Amended Government Superannuation Package

15 September 2016

Following extensive consultation, the Government has released an amended superannuation package.

Some measures remain largely unchanged while others such as the lifetime $500,000 non-concessional cap and the removal of the work test for over 65s have been replaced or scrapped altogether.

Once legislated, most measures will take effect from 1 July 2017. There are still many unanswered questions around the practical operation of many of the measures; we await the draft legislation for further details.

Note: these changes are not yet legislated and still have to be introduced to, and make it through, Parliament.

Objective of superannuation

The primary objective of superannuation is to provide income in retirement to substitute or supplement the age pension.

Non-concessional contributions (NCCs)

From 1 July 2017:

- annual non-concessional contributions (NCC) cap will be reduced from $180,000 pa to $100,000 pa
- individuals under age 65 will be eligible to bring forward 3 years ($300,000) of NCCs
- individuals with a total superannuation balance of more than $1.6 million will be unable to make NCCs.

$1.6 million eligibility threshold

The $1.6 million eligibility threshold will be tested at 30 June of the previous financial year. This means if the individual's balance at the start of the financial year is more than $1.6 million they will not be able to make any further NCCs.

Individuals with balances close to $1.6 million will only be able to bring forward the annual cap amount for the number of years that would take their balance to $1.6 million.

Under transitional arrangements, if an individual has not fully utilised their NCC bring-forward cap before 1 July 2017, the remaining bring forward amount will be reassessed on 1 July 2017 to reflect the new annual caps.

The $1.6 million eligibility cap will be indexed in $100,000 increments in line with the consumer price index (CPI) ie the same as the $1.6 million pension cap.

Broadly commensurate treatment will apply to members of defined benefit schemes.

Work test

As currently, the work test will continue to apply for individuals aged between 65 and 74. This was previously proposed to be removed.

Individuals aged between 65 and 74 will be eligible to make annual NCCs of $100,000 from 1 July 2017 if they meet the work test (ie gainfully employed for 40 hours in 30 consecutive days) but cannot use the bring forward option.

Worked examples (provided by the Government)…

Example 1 – bring-forward rule

Kylie's (age 58) superannuation balance is $500,000. She sells an investment property and makes a $200,000 NCC in October 2017.

As Kylie has triggered the bring-forward option, she can make a further $100,000 NCC in 2018/19. Kylie's NCCs would reset in 2020/21 and she could make further contributions from then.

Example 2 – bring-forward rule

Molly (age 40) has a superannuation balance of $200,000.

In September 2016, she receives an inheritance of $250,000, which she contributes to superannuation, triggering the $540,000 3-year bring forward option.

From 1 July 2017, Molly can make a $110,000 NCC in 2017/18 and $20,000 in 2018/19. She can then access the new bring forward option from 2019/20 and contribute up to $300,000 in NCCs.

Note: This may mean an individual under age 65 in 2016/17 can trigger the current bring-forward option (subject to eligibility) and contribute an entire $540,000 in NCCs. It is unclear exactly how the remaining bring forward cap will apply from 1 July 2017 where less than $540,000 is contributed.

Example 3 – work test

Gary (age 72) a retiree, works around 40 hours in September every year and has a superannuation balance of $450,000. As Gary meets the work test, he can make a $100,000 NCC in 2017/18. However, as Gary is over age 65 he cannot access the 3-year bring forward option.

Example 4 - $1.6 million eligibility threshold

Eamon (52) has a total superannuation balance of $1.45 million. He can make a $200,000 NCC in 2017/18. He cannot access the full 3-year bring forward option as this would take his balance over $1.6 million. Eamon would also not be able to make any further NCCs.

CGT cap

Separate to the NCC cap, the current CGT cap of $1,415,000 (2016/17) continues to apply for small business owners.

Concessional contributions (CCs), contributions tax/catch-up CCs

The annual concessional contributions (CCs) cap will be reduced to $25,000 (currently $30,000 and $35,000 if age 50 or over) from 1 July 2017 for all individuals.

The cap will index in line with Average Weekly Ordinary Time Earnings (AWOTE).

Individuals with adjusted taxable income of $250,000 (currently $300,000) will incur 30% tax on their concessional super contributions from 1 July 2017.

Catch-up CCs

This measure has been pushed out a further 12 months.

From 1 July 2018, unused CC cap amounts can be carried forward over 5-year periods accrued from 1 July 2018 where total super balance is under $500,000.

Example 5 – catch-up CCs

Anne has a superannuation balance of $200,000 but did not make any concessional superannuation contributions in 2018/19 as she took time off work to care for her child.

In 2019/20 she has the ability to contribute $50,000 into superannuation ($25,000 under the annual concessional cap and $25,000 from her unused 2018/19 cap which has been rolled over).

Tax deduction for personal super contributions

Individuals under age 75 and not just the wholly or substantially self-employed will be able to claim a tax deduction for their personal super contributions from 1 July 2017. This means more people will be able to make concessional contributions and it provides an alternative to salary sacrifice.

Example 6 – tax deduction for personal contributions

Chris has started his own online merchandise business but continue to work part-time at an accounting firm earning $10,000 as his business is growing.

His business earns $80,000 in his first year and he would like to contribute $15,000 of his $90,000 income to his superannuation. Chris could claim a tax deduction for his $15,000 of superannuation contributions.

$1.6 million pension cap

A $1.6 million cap will apply on the amount that can be transferred into the superannuation pension phase from 1 July 2017. There will be no restriction on subsequent earnings.

Accumulated super in excess of $1.6 million can be retained in a member's accumulation account (with earnings taxed at 15%) or moved outside super.

The cap will index in $100,000 increments in line with the consumer price index (CPI) and is expected to be around $1.7 million in 2020/21.

Transition to retirement (TTR)

Individuals who have reached preservation age can still access a transition to retirement (TTR) income stream but earnings on the amount supporting it will be taxed at 15%.

Innovative new retirement income stream products, such as deferred lifetime annuities and self-annuitisation products will become eligible for the earnings tax exemption.

Individuals will no longer be able to elect to draw lump sums from their TTR pension to reduce tax.

The tax treatment of income stream payments remains unchanged ie for recipient's age 60 or over the payments will be tax free, or taxed at the individual's marginal tax rate less a 15% tax offset between preservation age and age 60.

Spouse contributions and tax offset

As currently, individuals can only make spouse contributions where the receiving spouse is under age 65 or age 65-70 and working.

The income threshold of a low income spouse for the purposes of the spouse contribution tax offset will increase from $13,800 to $40,000, from 1 July 2017.

Low income superannuation tax offset (LISTO)

The low income super contribution (LISC) will be replaced with the Low income superannuation tax offset (LISTO) from 1 July 2017.

The LISTO will automatically refund tax paid on low-income earners' concessional contributions. The offset is capped at $500 where taxable income is less than $37,000.

Without the offset, low income earners would pay more tax than if they earned the income directly.

Anti-detriment

The anti-detriment will be abolished from 1 July 2017 as previously announced.