

## FEDERAL BUDGET 2016 – SUPERANNUATION CHANGES

This year's Federal Budget includes the most significant changes to Australia's superannuation system since 2007. The dates when these changes come into effect vary but some apply from Budget night (7.30pm, 3<sup>rd</sup> May 2016)

Here is a summary of the main points based on the proposed implementation date:

### 1. Measure applying from Budget night, 7.30pm, 3<sup>rd</sup> May 2016

**A lifetime cap of \$500,000 for non-concessional contributions** has been introduced, effective immediately. This replaces the existing annual cap of \$180,000 (or \$540,000 every three years under the bring-forward rule).

The lifetime cap takes into account all non-concessional contributions made from 1 July 2007. Contributions made after the Budget announcement that exceed the cap (taking into account all previous non-concessional contributions) will need to be removed or will be subject to the current penalty tax arrangements. However, there will be no penalties if the cap has been reached or exceeded prior to the Budget announcement (7.30pm AEST, 3 May 2016).

For example, a member made the following non-concessional contributions to their superannuation fund.



On the night of the 2016-17 budget, this member has already reached the \$500,000 cap. So according to the announcement, no more contributing non-concessional!

#### WARNING

Please contact our office to see if you are under the \$500,000 non-concessional contribution cap before making further non concessional contributions.

### 2. Measures applying from 1 July 2017

#### Concessional cap reduced to \$25,000 a year

The cap on concessional contributions will reduce to \$25,000 a year for everyone, regardless of age. Currently the concessional contributions cap is \$30,000 under age 50 and \$35,000 for ages 50 and over.

Individuals with super balances under \$500,000 who don't reach their concessional cap in a given year will be able to carry forward their unused cap amounts on a rolling basis over five consecutive years.

#### Contribution eligibility requirements updated

The current work test that applies for people making voluntary contributions between age 65 and 74 will be removed as of 1 July 2017. This will make it easier for older Australians to contribute to super.

Individuals will also be able to make contributions for a spouse aged under 75 without requiring the spouse to satisfy a work test.

#### Tax exemption on TTR pensions removed

The tax exempt status of income from assets supporting transition to retirement (TTR) income streams will be removed from 1 July 2017, with earnings to be taxed at 15%. This change will apply regardless of when the TTR income stream commenced.

## **Transfer balance cap introduced**

On 1 July 2017, a transfer balance cap of \$1.6 million will be introduced to restrict the total amount of super that an individual that can be transferred from the accumulation phase to the pension phase. If an individual accumulates more than \$1.6 million, they will be able to maintain the excess in the accumulation phase (where earnings will be taxed at 15%).

Those already in the pension phase on 1 July 2017 and whose balances exceed \$1.6 million will need to either withdraw the excess or transfer it back into the accumulation phase.

Individuals who breach the cap will be subject to a tax on both the excess amount and the earnings on the excess amount —similar to the tax treatment for excess non-concessional contributions.

## **Threshold reduced for additional contributions tax**

Division 293 tax — an additional 15% contributions tax payable by high income earners with earnings over \$300,000 — will also apply to those with incomes above \$250,000 from 1 July 2017.

For Division 293 purposes, the definition of 'income' includes:

- taxable income (including the net amount on which family trust distribution tax has been paid)
- reportable fringe benefits
- total net investment loss (including net financial investment loss and net rental property loss)
- Low tax contributions (non-excessive concessional contributions) including super guarantee, salary sacrifice and personal concessional contributions.

## **Low income superannuation offset introduced**

A Low Income Superannuation Tax Offset (LISTO) will be introduced to reduce the tax on contributions for low income earners. The LISTO will replace the Low Income Superannuation Contribution (LISC) scheme when it is abolished on 1 July 2017.

The LISTO will provide a non-refundable tax offset to super funds, based on the tax paid on concessional contributions up to a cap of \$500. The LISTO will apply to members with adjusted taxable income up to \$37,000 that have had a concessional contribution made on their behalf.

The ATO will determine a person's eligibility for the LISTO and advise their super fund annually. The fund will contribute the LISTO to the member's account.

## **Access increased to tax offset for spouses**

The current spouse super tax offset will be available to more people when the spouse income threshold changes on 1 July 2017. The threshold will increase from \$10,800 to \$37,000.

A contributing spouse will be eligible for an 18% offset worth up to \$540 for contributions made to an eligible spouse's super account.

## **Deductions for personal contributions extended**

As of 1 July 2017, Australians under 75 will be able to claim an income tax deduction for any personal contributions made to a complying super fund up to their concessional cap. This effectively allows anyone, regardless of their employment circumstances, to claim a deduction for their personal contributions up to the value of the cap. Salary and wage earners will be able to claim super deductions without the need to have a salary sacrifice arrangement in place with their employer.

*Please note that the Budget announcements are not yet law and must pass both Federal Houses of Parliament before coming law. With the upcoming election it may be months before these matters are resolved and a possible change of government may also alter components of the proposed changes. We will endeavour to keep you updated when further developments happen.*