Superannuation changes update

The Federal Government has proposed changes to superannuation as at 22 November 2016.

A summary of those changes is set out below, each of which will take effect on 1 July 2017 unless specified otherwise.

Contributions Caps

The $500,000 lifetime cap for after-tax (non-concessional) contributions will be replaced with a $100,000 annual cap. However, this rule specifies that members with more than $1.6 million in super cannot make non-concessional contributions. In addition, the before-tax (concessional) contributions cap will be reduced to $25,000. Where previously the cap for those over 50 was $35,000 and for those under 50 was $30,000, this new cap applies to all. The Government also plans to introduce catch-up concessional contributions for members with an account balance of less that $500,000. This means that if a member does not use the full cap amount in any year, the unused balance can be carried forward for up to 5 years. While this initiative was planned for introduction on 1 July 2017, it has now been put back until 1 July 2018.

Personal Contribution Deductions

Currently, an individual can claim a deduction for personal super contributions where they meet certain conditions. One of these conditions is that less than 10% of their income is from salary and wages. From 1 July 2017, this condition will be removed. The remaining conditions remain the same. The intent of this change is to improve flexibility of the super system so that more Australians can use their concessional contributions cap.

Transfer Cap

A $1.6 million cap will be placed on transfers from super accounts to retirement accounts. This means that if a member has more than $1.6 million in a Pension account, the excess will need to be returned to their accumulation phase account, where the earnings will be taxed at 15%, or simply withdrawn. This new cap applies both to current retirees and to members who are yet to retire. It is also a retrospective policy in that it applies super balances accrued in the past.

Tax Offsets

The Low Income Super Contribution (LISC) scheme will continue, but it will be renamed the Low Income Superannuation Tax Offset (LISTO). This is where a member who earns $37,000 or less can receive a refund of tax paid on before-tax (concessional) contributions up to an annual limit of $500.

Currently, a member who contributes to their spouse's superannuation account can claim an 18% tax offset, up to a maximum of $540, on those contributions if their spouse earns $10,800 or less. However, the Government will increase the income threshold to $37,000 and phase out at $40,000. This change is subject to legislation.

Contributions Tax Increase

Contributions tax on before-tax (concessional) contributions will be increased to 30% for members earning $250,000 per year or more. This previously applied to members earning in excess of $300,000.

Transition-to-Retirement

The tax exemption on fund earnings in transition-to-retirement accounts will be discontinued. Earnings from assets supporting a transition-to-retirement account will be taxed at 15% regardless of the date the account commenced.

Members will also no longer be able to treat super income stream payments as lump sums for taxation purposes.

Tougher Age Pension Assets Test

From January 2017, a retiree will lose $3.00 for every $1,000 of assets over the full Age Pension threshold. This is double the previous amount and will lead to over 300,000 Australians losing all or part of their Age Pension benefits.

Over 65 Work Test

The work test requires a member to be gainfully employed. To satisfy the work test, you must work at least 40 hours during a consecutive 30-day period each financial year in which the contributions are made. The Government had planned to discontinue the work test for members over 65 years of age, but have decided to retain it.

Anti-detriment Provision

The Government is removing the anti-detriment provision which currently enables a super fund to refund a member's lifetime super contribution tax payments into an estate as part of a death benefit payment. The fund will also no longer be entitled to claim a deduction in their tax return for such a payment.

Innovative Retirement Products

Currently, there are rules restricting the development of new retirement income products. The Government will remove these barriers by extending the tax exemption on earnings in the retirement phase to innovative products, such as deferred lifetime annuities and group self-annuitisation products.

Solid. Strong. Yours.

AMIST Super Hotline **1800 808 614**