Federal Budget 2016/17 - Superannuation

PRODUCT UPDATE | JULY 2016

The Government delivered the 2016/17 Federal Budget with significant changes to superannuation and taxation. These proposals need to successfully pass through Parliament before becoming law and may be subject to change during this process. The below measures are proposed to commence from 1 July 2017 unless stated otherwise.

What does this mean for Superannuation?

Super work test abolished (age 64 to 74)

Existing superannuation contribution restrictions on individuals aged 65 to 74 will be removed. Individuals under the age of 75 will no longer have to satisfy the work test and will be able to make additional contributions as well as receive contributions from their spouse.

Concessional contributions cap

The concessional contributions cap will be reduced to $25,000, from the current $30,000 for persons under age 50 and $35,000 for persons age 50 or over as at the end of the financial year.

Individuals who have a super balance less than $500,000 and who have not reached their concessional contribution cap in previous years will be able to carry forward unused amounts. Amounts are carried forward on a rolling basis for a period of five consecutive years and only unused amounts accrued from 1 July 2017 can be carried forward. This also applies to members in defined benefits schemes.

From 1 July 2017, it is proposed that both notional and actual employer contributions in the concessional contribution cap for members of unfunded defined benefit schemes and constitutionally protected funds will be included. Members of these funds will be able to salary sacrifice contributions commensurate with members of accumulation funds.

Additional tax on concessional contributions

Currently, concessional contributions are subject to an additional 15% tax (Division 293 tax), for individuals with adjusted taxable income over $300,000. This threshold will be reduced to $250,000.

The proposed $250,000 threshold will also apply to members of defined benefit schemes and constitutionally protected funds currently covered by the tax. Existing exemptions for Division 293 tax will be maintained.

Introduction of Low Income Superannuation Tax Offset (LISTO)

The proposed introduction of LISTO will provide a non-refundable tax offset of up to $500 to superannuation funds, based on the tax paid on concessional contributions made on behalf of low income earners (those with adjusted taxable income of up to $37,000).

LISTO will replace the existing low income super contribution when it expires on 30 June 2017.

Low income spouse super contribution tax offset

The Government will increase access to the low income spouse super contribution tax offset by raising the income threshold of the low income recipient spouse from $10,800 to $37,000. The low income spouse tax offset provides a tax offset of up to $540 pa for the contributing spouse. Currently to receive the maximum tax offset requires a contribution of $3,000. The offset will gradually reduce for income above $37,000 and completely phase out at income above $40,000.

Deduction for personal contributions

Individuals under the age of 75 will be allowed to claim income tax deductions for personal superannuation contributions.

This effectively allows individuals, regardless of their employment situation, to make tax deductible personal contributions up to the concessional contributions cap. Individuals who are currently not eligible to claim a deduction, or whose employers do not offer salary sacrifice arrangements may be able to take advantage of these changed arrangements.

Individuals that are members of certain prescribed funds would not be eligible to deduct contributions to those schemes. Generally, prescribed funds will include all untaxed funds, all Commonwealth defined benefit schemes, and any State, Territory or corporate defined benefit schemes that have chosen to be prescribed.

Lifetime non-concessional contributions cap (NCC) to replace annual cap

A $500,000 lifetime NCC cap will replace the existing yearly NCC cap of $180,000 (or $540,000 under the bring-forward arrangements). The lifetime NCC cap will be indexed to average weekly ordinary time earnings.

Generally, the measure takes into account all NCCs made on or after 1 July 2007, contributions made before 7.30pm AEST 3 May 2016 cannot result in an excess. However, excess NCCs made after this time will need to be removed or will be subject to penalty tax. The Government has indicated that eligible small business capital gains tax and structured settlement or orders for personal injury contributions will remain exempt from the cap.

The measure provides flexibility around when to contribute and will be available to all Australians under the age of 75.

Members of defined benefit schemes and constitutionally protected funds will have their after-tax contributions included in their lifetime NCC cap.

If a member of a defined benefit fund exceeds their lifetime NCC cap, ongoing contributions to the defined benefit account can continue but the member will be required, on an annual basis, to remove an equivalent amount (including proxy earnings) from any accumulation account they hold. The amount to be removed will be limited to the amount of NCCs made into those accounts since 1 July 2007.

Contributions made to a defined benefit account will not be required to be removed. The Government will consult to ensure broadly commensurate and equitable treatment of individuals for whom no amount of post 1 July 2007 NCCs is available to be removed.

A new super transfer balance cap

A new cap of $1.6 million will apply to the amount of accumulated super that can be transferred to the tax free retirement income stream phase. The Government has indicated that structured settlement or orders for personal injury contributions will be exempt from the transfer balance cap. Any subsequent earnings on the balance transferred will not be restricted.

Benefits accumulated in excess of $1.6 million can remain in accumulation phase and be subject to tax up to 15% on earnings. Members with retirement income streams already in excess of $1.6 million will be required to reduce their retirement balance to $1.6 million by 1 July 2017 (the excess can be transferred back to accumulation phase).

Amounts transferred to a retirement income stream in excess of $1.6 million (including earnings on these excess transferred amounts) will be taxed similar to excess NCCs.

To broadly replicate the effect of the proposed $1.6 million transfer balance cap, pension payments over $100,000 pa paid to members of unfunded defined benefit schemes and constitutionally protected funds providing defined pensions, will continue to be taxed at full marginal rates, however the 10% tax offset will be capped at $10,000 from 1 July 2017.

For members of funded defined benefit schemes, 50% of pension amounts over $100,000 pa will now be taxed at the individual’s marginal tax rate.

Transition To Retirement (TTR)

The Government has proposed that the tax exemption on earnings from assets supporting TTR income streams will be removed from 1 July 2017. Furthermore, the ability for members to elect that certain pension payment be taxed as lump sums will also be removed.

Anti-detriment deduction

The anti-detriment payment on superannuation death benefits will be abolished. The anti-detriment payment is an additional payment to a spouse, former spouse, or child of a member that notionally represents the amount that would have been included in your death benefit had contributions tax not been payable.

Retirement products

In an additional paper released with the Budget, the Government has outlined that in principle, it agrees with extending the tax exemption on earnings in the retirement phase for deferred lifetime annuities and other lifetime products.

What does this mean for personal taxation?

Increase in personal tax threshold

The Government will increase the 32.5% personal income tax threshold from $80,000 to $87,000 from 1 July 2016. Other thresholds remain the same.

Any questions?

If you have any questions or require further information, please:

- speak with your financial adviser or visit the following websites, http://budget.gov.au/ or http://www.budget.gov.au/2016-17/content/glossies/factsheets.htm
- call Customer Services on 13 38 63, weekdays between 8.30am and 6.30pm (AEST)
- email customer@onepath.com.au.