LOWE LIPPMANN
Chartered Accountants & Business Advisors

TAX ALERT: SEPTEMBER 2016

CHANGES ANNOUNCED FOR THE BUDGET SUPERANNUATION REFORMS

Introduction

The Government has recently announced a number of changes to the superannuation reforms revealed in the 2016-2017 Budget. The most significant change is that the lifetime non-concessional (after tax) contribution limit of $500,000 will now be withdrawn and in its place a $100,000 per annum contribution cap.

While all of the details were not released at this time, we have provided a summary of the key changes that have been announced, and we will continue to advise of further announcements as they are made.

Annual non-concessional contributions cap

Individuals can currently make non-concessional contributions of $180,000 per year, or $540,000 every three years for individuals under 65. These non-concessional contributions are generally made out of an individual's post-tax income, and earnings on these contributions are taxed at a flat rate of 15 per cent in accumulation accounts and then are tax free when transferred into a retirement account.

From 1 July 2017, the Government has announced a reduction of the annual non-concessional contributions cap to $100,000, with a three year bring forward ($300,000) for those aged under 65.

Furthermore, where an individual's total superannuation balance is above $1.6 million, they will no longer be eligible to make non-concessional contributions. The $1.6 million eligibility threshold will be based on an individual's balance as at 30 June of the previous tax year. For example, if an 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 non-concessional contributions during that year.

When accessing the "three year bring forward" rule, an individual with a balance 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.

Consistent with the current treatment, individuals aged between 65 and 74 will be eligible to make annual non-concessional contributions of $100,000 if they meet the work test (that is they work 40 hours within a 30 day period each income year), but will not be able to access the bring forward of contributions.

Allowing "catch-up" concessional contributions

The Government has also announced that it will allow individuals with account balances of $500,000 or less to make "catch-up" superannuation contributions. This will be most relevant for individuals with interrupted work arrangements to make "catch-up" superannuation contributions.

Level 7 616 St Kilda Road Melbourne
Victoria Australia 3004
(PO Box 130 St Kilda Vic 3182)
T 61 (03) 9525 3777
F 61 (03) 9537 1104
E office@lowelippmann.com.au
W www.lowelippmann.com.au

From 1 July 2018, individuals with superannuation balances of $500,000 or less will be able to accrue additional concessional cap amounts. Individuals will be able to access their unused concessional contributions cap space on a rolling basis for a period of five years, and any unused amounts after five years will expire.

Also, individuals aged 65 to 74 who meet the work test will be able to access these arrangements.

Introducing a $1.6 million transfer balance cap

The Government will introduce a $1.6 million cap on the total amount of superannuation savings that can be transferred from a concessionally-taxed 'accumulation account' to a tax-free 'retirement account'.

From 1 July 2017, the Government will introduce a $1.6 million cap on the total amount of superannuation that can be transferred into a tax-free retirement account.

Superannuation savings accumulated in excess of the cap can remain in an accumulation superannuation account, where the earnings will be taxed at 15 per cent.

Those individuals already in retirement as at 1 July 2017 with balances in excess of $1.6 million will need to either:

- transfer the excess back into an accumulation superannuation account; or
- withdraw the excess amount from their superannuation.

It is important to note that individuals who breach this cap will be subject to penalty arrangements.

Reforming the taxation of concessional contributions

From 1 July 2017, the Government will lower the annual concessional contributions cap to $25,000 for all individuals. The cap will index in line with wages growth. Until this time the existing concessional caps ($30,000 for those aged under 50 and $35,000 for those people aged 50 and over) will apply.

Additionally, the Government will reduce the income threshold above which high income individuals are required to pay 30 per cent tax (an additional 15 per cent tax) on their concessional superannuation contributions — otherwise known as the Division 293 threshold — from $300,000 to $250,000 per annum.

The additional tax is imposed on the whole amount of the contributions, up to the concessional cap, if an individual's salary and wages are above the threshold. Otherwise, the additional tax is only imposed on the portion of the contribution that takes an individual over the threshold.

Please do not hesitate to contact your Lowe Lippmann Relationship Partner if you wish to discuss any of these matters further.

Level 7 616 St Kilda Road Melbourne
Victoria Australia 3004
(PO Box 130 St Kilda Vic 3182)
T 61 (03) 9525 3777
F 61 (03) 9537 1104
E office@lowelippmann.com.au
W www.lowelippmann.com.au