Federal budget 2016

September update

The 2016 Federal Budget proposed some major changes to Superannuation.

Since Budget night, the Government has released for public consultation the exposure draft legislation: Superannuation (Objective) Bill 2016 – that covered the following Superannuation measures from the Budget:

- the objective of superannuation;
- tax deductions for personal superannuation contributions,
- improve superannuation balances of low income spouses;
- introduce a Low Income Superannuation Tax Offset (LISTO); and
- Harmonising contribution rules for those aged 65-74.

On 15 September 2016, the Federal Government announced they will be making significant changes to those initial proposed superannuation reforms:

- Replacing the proposed non-concessional lifetime cap of $500,000 with annual caps. This includes reducing the current annual cap of $180,000 with $100,000 from 1 July 2017.
- The 3 years bring forward rule will remain, but will be based on the lower cap.
- Non-concessional contributions will not be allowed once the proposed $1.6 million transfer cap has been reached.
- The concessional catch up provisions are now proposed to start from 1 July 2018 instead of 1 July 2017.
- The proposal to scrap the work test for those over the age of 64 has been abolished.

Lifetime cap for non-concessional contributions

Proposal now removed. Instead, the new proposal is for an annual cap of $100,000 to replace the current $180,000 Cap from 1 July 2017.

Where an individual's Superannuation balance is above $1.6 million they will no longer be eligible to make non-concessional contributions.

Concessional contribution cap reduced to $25,000

The concessional contributions cap will reduce to $25,000 per year for everyone regardless of age from 1 July 2017.

Transition to retirement pensions: removal of earnings tax exemption

The tax exempt status of income from assets supporting transition to retirement (TTR) income streams will be removed from 1 July 2017.

Earnings will then be taxed at 15 per cent.

This change applies irrespective of when the TTR income stream commenced, ie. no grandfathering applies.

30% concessional contribution tax for those with incomes of $250,000 or more

From July 1 2017, individuals with incomes over $250,000 will now be required to pay an additional 15% tax on their super contributions. The threshold was previously $300,000. To be liable for a total of 30% tax, a person would need to have at least $250,000 in combined income and concessional superannuation contributions. This change will also be reflected in defined benefit schemes.

Introduce a $1.6M superannuation transfer balance cap

A transfer balance cap will be introduced to restrict the total amount of superannuation that can be transferred from accumulation to pension phase to $1.6 million.

Where an individual accumulates amounts in excess of $1.6 million, they will be able to maintain this excess in accumulation phase.

The Government has also confirmed commensurate treatment for members of defined benefit schemes will be achieved through changes to the tax arrangements for pension amounts over $100,000 from 1 July 2017 (see Defined Benefit Scheme Changes below).

Anti-detriment payments abolished

Anti-detriment provisions will be abolished from 1 July 2017, effectively removing the ability of superannuation funds to increase lump sum superannuation death benefits when paid to eligible beneficiaries.

Defined benefit scheme changes

To broadly replicate the effect of the proposed $1.6 million transfer balance cap, the Government has announced that pension payments over $100,000 per annum paid to members of unfunded Defined Benefit schemes and Constitutionally Protected funds providing defined benefit pensions, will continue to be taxed at full marginal rates. However, from 1 July 2017 the 10% tax offset will be capped at $10,000.

For members of funded defined benefit schemes, 50 per cent of pension amounts over $100,000 per annum will now be taxed at the individual's marginal tax rate.

Catch-up concessional contributions

This measure is now been proposed to start from 1 July 2018 instead of 1 July 2017.

Work test for those between 65 and 74

The government will no longer abolish the work test for those aged between 65 and 74. People in this age group will still need to meet the work test to make concessional or non-concessional contributions to super.

Increased access to spouse superannuation tax offset

The Government has announced it is proceeding with this measure.

Low income superannuation tax offset

The Government has announced it is proceeding with this measure.

Extend deductions for personal contributions

The Government has announced it is proceeding with this measure.