Federal budget 2016

What it means for your super and your retirement

As expected, a number of key superannuation changes were announced in last night's Federal Budget.

Unsurprisingly, superannuation has yet again been used as a pot of money to solve some of the budget issues. The Budget papers show the Government has wound back $4.5 billion in super tax concessions, with only $1.5 billion is being re-invested back into the super system and even less will flow to lower income earners.

Below is a summary of the key changes. The proposed changes have different starting dates; some are effective immediately with some retrospectivity, while most are scheduled to commence 1 July 2017.

For full details follow the links below to the consumer fact sheets released by the Government.

The volume of the proposed changes may undermine your confidence in the system. Please remember we are here to help. If you are concerned about the changes, we encourage you to speak to a Vision Super Financial Planner. For assistance please contact Vision Super on **03 9911 3222**.

Low income superannuation tax offset (LISTO)

A tax offset that provides a super savings boost of up to $500 a year for those earning up to $37,000 will be introduced.

The LITSO will replace the existing Low Income Superannuation Contribution (LISC) which is scheduled to be repealed from 30 June 2017.

Effective date – 1 July 2017

See the Treasury fact sheet

Snapshot of super changes

- Low income tax offset retained
- Reduced $25,000 concessional cap
- New $500,000 lifetime non-concessional cap
- New $1.6 million cap for transfers to pension accounts
- New catch up measure for those with $500,000 balance or less
- 30% concessional contribution tax for those earning over $250,000
- Extension of tax deduction for personal contributions
- Transition to retirement changes
- Extension of spouse tax offset

New concessional contribution cap of $25,000 for all

The Government will lower the annual cap on concessional (pre-tax) contributions to $25,000. Currently, this cap is $30,000 for members under age 50 years and $35,000 for members aged 50 years and over. The new concessional contribution cap will be indexed in line with wages growth.

Effective date – 1 July 2017

See the Treasury fact sheet

New $1.6 million cap on money you can put into retirement phase

The Government will introduce a $1.6 million pension transfer cap on the total amount of superannuation savings that can be transferred from an 'accumulation account' to a 'retirement account'. Currently, the income earned by the fund on the retirement account is tax-free, while the income earned on an accumulation account is taxed at a maximum rate of 15%. The proposed change will limit the amount that a member can transfer to the tax-free section of the superannuation fund.

Superannuation savings accumulated in excess of the cap can remain in an accumulation account where the earnings will continue to be taxed at 15%. Those individuals already with pension account balances in excess of $1.6 million as at 1 July 2017 will need to either transfer the excess back into an accumulation account or withdraw the excess amount from their pension account. Individuals who think they may be affected by this new measure should consider seeking financial advice.

Effective date – 1 July 2017

See the Treasury fact sheet

Lowering of the high income earner additional 15% contributions tax threshold to $250,000

Currently, individuals with incomes over $300,000 are required to pay an additional 15% tax on their super contributions. This threshold is to be decreased to $250,000.

For these purposes a person's income will be equal to his/her combined income and concessional superannuation contributions. This change will also apply to defined benefit members.

Effective date – 1 July 2017

See the Treasury fact sheet

New lifetime non-concessional cap of $500,000

A $500,000 lifetime non-concessional contribution cap will apply for all individuals immediately. This is a retrospective change as the lifetime cap takes into account all the non-concessional contributions made from a person since 1 July 2007.

The lifetime non-concessional contribution cap will be indexed in $50,000 increments in line with wages growth.

If an individual exceeded the lifetime non-concessional contribution cap prior to 3 May 2016, they will be taken to have used up their lifetime non-concessional contribution cap. However he/she will not be required to withdraw the excess out of the superannuation system.

Effective date – Budget night 3 May 2016

See the Treasury fact sheet

New catch-up measure for those with balances of $500,000 or less

People with superannuation balances of $500,000 or less will be able to carry forward any unused concessional contribution cap amounts for a period of up to five years. Amounts carried forward that have not been used after five years will expire (ie you need to contribute the unused concessional contribution cap amount within five years or you lose it). This will enable a person to make some 'catch-up' contributions where they have not fully utilised the concessional contribution caps from 1 July 2017.

At this stage, the Government has not provided any commentary on whether any unused portion of the current concessional contribution caps can be carried forward.

Effective date – 1 July 2017 **See the Treasury fact sheet**

Changes to the treatment of transition to retirement pensions/income streams

Currently, the income earned by the fund supporting a transition to retirement income stream is tax free. Based on the announcements, the tax exempt status of this income will be removed. As a result, this income will be taxed at a maximum rate of 15%. This change will apply irrespective of when the transition to retirement income stream commenced. In addition, individuals will no longer be allowed to treat certain superannuation income stream payments as lump sums for tax minimisation purposes.

Effective date – 1 July 2017 **See the Treasury fact sheet**

More people able to claim super tax deduction on voluntary contributions

Based on the announcements, the work test will be removed effective from 1 July 2017. As a result, anyone under 75 years of age will be able to claim an income tax deduction for personal superannuation contributions made to an eligible fund up to the new $25,000 concessional contribution cap.

Currently, many self-employed people are unable to claim a deduction on their personal superannuation contributions, and not everyone has access to salary sacrificing arrangements.

Any amounts contributed under these new arrangements will count toward the individual's concessional contributions cap and will be subject to the usual contribution tax rules (including the higher income earner additional 15% contribution tax rules).

Effective date – July 1, 2017 **See the Treasury fact sheet**

Extension of the spouse tax offset

The eligibility rules for claiming the tax offset for spouse contributions will be extended. The current 18% tax offset of up to $540 will be available for any individual (whether married or de facto), contributing to a recipient spouse whose income is up to $37,000. This is an increase from the current $10,800.

As is currently the case, the offset is gradually reduced for income above this level and completely phases out at income above $40,000. Individuals will be able to make contributions on behalf of their spouse who is under age 75.

Effective date – 1 July 2017 **See the Treasury fact sheet**

Changes to defined benefit schemes

Members of defined benefit schemes will be subject to the above changes, with a few exemptions for some funds. Members of defined benefit schemes will be permitted to make concessional contributions to accumulation schemes. However, the $25,000 cap will be reduced by the amount of their 'notional contributions'. The $250,000 threshold for the high income contributions tax will also apply. This is similar to the current rules applying to defined benefit members.

Non-concessional contributions to defined benefit schemes made since 1 July 2007 will be included in the $500,000 lifetime non-concessional contribution cap, but will not be required to be withdrawn. If a member with a defined benefit account exceeds their lifetime non-concessional contributions cap, ongoing contributions to the defined benefit account can continue but they will be required to remove an equivalent amount from any accumulation account on an annual basis if they have one.

To implement the $1.6 million pension transfer rules for defined benefit members, 50% of the pension payments over $100,000 paid to the member each year will be taxed at the individual's marginal tax rate.

Effective date – Budget night 3 May 2016 **See the Treasury fact sheet**