May 2016 Federal Budget Superannuation Update - $500k lifetime cap dropped

On 15 September 2016 the Treasurer announced the following changes to the superannuation proposals that had originally been announced in the May 2016 Federal Budget.

Non Concessional Contributions (ie After Tax)

- The $500,000 lifetime non-concessional (after-tax) contribution cap will be replaced by a new measure to reduce the existing annual non-concessional contributions cap from $180,000 p.a. to $100,000 p.a. (ie four times the new "concessional" contribution cap of $25,000).
- Individuals aged under 65 will continue to be able to 'bring forward' three years' worth of non-concessional contributions. Transitional provisions will apply on 1 July 2017.
- Individuals with a superannuation balance of more than $1.6 million will no longer be eligible to make non-concessional (after tax) contributions from 1 July 2017. This limit will be tied and indexed to the pension concession cap.
- Broadly commensurate treatment will apply to members of defined benefit schemes.
- Effective date 1 July 2017

Impact

The existing rules ($180k annual cap with the 3 year bring forward provisions) will apply up to 30 June 2017 allowing opportunities to further contribute to superannuation this tax year before the proposed new rules are due to take effect. This is likely to be the last year individuals with super savings of at least $1.6m will be able to make a non- concessional contribution.

Post 1 July 2017, individuals need to be mindful of both the new annual cap of $100k p.a. and the $1.6m limit (which will be measured against superannuation balances as at the end of the previous financial year). However, re-contribution strategies may continue to be considered.

In the context of simplifying super, the complex and controversial retrospective $500,000 contribution cap rule is exchanged with a potentially more complex account balance rule.

Concessional Contributions (ie Before Tax)

The proposed reduction of the Concessional Contribution (ie before tax) limit to $25,000 p.a. remains on course to be legislated, as announced in the May 2016 Budget. However, the commencement date of the proposed catch-up concessional superannuation contributions will be deferred by 12 months to 1 July 2018.

Contribution rules for those between the ages of 65 and 74

- The Government will now not proceed with the harmonisation of contribution rules for those aged 65 to 74.
- Individuals aged 65 to 74 who satisfy the work test will still be able to make additional contributions to superannuation.

Impact

This change would have been a significant boost to many retirees aged between 65 and 74 receiving a windfall (eg an inheritance) or with significant investments outside of superannuation wishing to claim a personal tax deduction.

Furthermore, this would have assisted in further simplifying the contribution rules with the abolition of the 40 hours in a 30 consecutive day work test.

Other Proposed Changes

The following May 2016 Federal Budget announcements for superannuation remain unchanged:

- Reducing the annual cap on concessional contributions to $25,000 for all individuals
- Extending the 30% tax rate (i.e. 15% additional tax) on concessional contributions to those earning over $250,000 pa
- Lifting the threshold for the spouse tax offset from $10,800 to $37,000.
- Introduction of the LISTO to replace the Low Income Super Contribution when it expires on 30 June 2017 so that low income earners receive a refund of up to $500 of the tax on their super contributions.
- Removal of the 10% rule for those who are employed and self employed.
- Introduction of a $1.6m superannuation transfer balance cap (indexed in $100,000 increments) on the total amount of super that can be transferred to the pension phase.
- Taxing the earnings of Transition to Retirement Income Streams (TRIS) so as to reduce the incentive for them to be used as a vehicle to minimise tax.
- Removing the ability of individuals to be able to elect to receive a tax free lump sum as part of the minimum pension drawdown.

The announcements are just proposals and as yet are still to be legislated. Further details will be provided in due course once the legislation is finalised.

We will be holding a lifestyle seminar in November that will also briefly cover these rules.

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