

SUPERANNUATION REFORM: THE PROPOSED SUPERANNUATION CHANGES

Annual non-concessional contributions cap

The Government has announced that the \$500,000 lifetime non-concessional cap proposed at the last Federal Budget will not proceed. Instead the Government will lower the annual non-concessional contributions cap to \$100,000 from 1 July 2017, with a three year bring forward (\$300,000) for those aged under 65.

From 1 July 2017, the Non-Concessional Contribution (NCC) cap will be reduced from \$180,000 to \$100,000 per year. Individuals under the age of 65 will still be able to 'bring forward' three years' worth of non-concessional contributions and contribute \$300,000 in one financial year.

Individuals can currently make non-concessional contributions of \$180,000 per year, or \$540,000 every three years for individuals under 65. From 1 July 2017, the Government will lower the annual non-concessional contributions cap to \$100,000, which is four times the annual concessional contribution cap, with a three year bring forward (\$300,000) for those aged under 65. 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 the previous year. This means if the individual's balance at the start of the financial year (the contribution year) is more than \$1.6 million they will not be able to make any further non-concessional contributions. Individuals with balances 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.

Reforming the taxation of concessional contributions

The Government will lower the annual cap on concessional (pre-tax) contributions to \$25,000 and

reduce the income threshold above which high income individuals are required to pay 30 per cent tax on their concessional superannuation contributions - commonly referred to as the Division 293 threshold - to \$250,000 per annum. The Federal Government has argued that this will better target tax concessions to ensure that the superannuation system is equitable and sustainable.

Allowing catch-up concessional contributions

People with superannuation balances of \$500,000 or less will be able to accrue additional concessional cap amounts from 1 July 2018.

Individuals will be able to access their unused concessional contributions cap space on a rolling basis for a period of five years. Amounts that have not been used after five years will expire. This increased flexibility will make it easier for people with varying capacity to save and for those with interrupted work patterns, to save for retirement and benefit from the tax concessions to the same extent as those with regular income.

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

Improving access to concessional contributions

The proposed 'harmonisation' of contribution eligibility will now be abandoned and individuals aged between 65 and 74 will still need to meet the work-test (work 40 hours in 30 consecutive days) before they can contribute to superannuation.

From 1 July 2017, the Government will allow all Australians under 75 who make personal contributions (including those aged 65 to 74 who meet the work test) to claim an income tax deduction for any personal superannuation contribution into an eligible superannuation fund. These amounts will count towards the individual's concessional contributions cap, and be subject to 15 per cent contributions tax.

Important: Clients should not act solely on the basis of the material contained in this update. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.