HUB
WEALTH
MANAGEMENT

5th of April, 2013

Government Announces Superannuation Reform Proposals Today

The Federal Government today announced its long-awaited proposals for changes to the superannuation system. We have summarised the key elements for you below. Most importantly, **these are only proposals**: there is no legislation, very little detail, and we have an election in September.

Things that Have Not Changed

There is no proposal to change any of the following:

- The tax applied to superannuation earnings, being a maximum of 15%
- The ability for people over 60 to withdraw money tax-free from superannuation and pension accounts
- The Superannuation Guarantee Levy, with a planned increase to 9.25% from 1 July 2013.

Proposed Changes

1. Tax on Earnings in Certain Pension Accounts

From July 1, 2014, the tax exemption applying to earnings in pension accounts will be limited to $100,000 per person per financial year. Tax of 15% will apply to any additional earnings. This will also apply to defined benefit funds.

Comment: The announcement does not clarify exactly what "earnings" are, whether there is any offset that can be used for years when earnings are negative, and many other technical details.

There are also some important **exemptions** outlined, including for assets purchased prior to 5 April 2013. Here, only gains after July 2014 will be included.

Potential Implication

In the matrix below, we have included some basic scenarios to illustrate how the tax could work.

	$1 Million Pension 5% Return	$1 Million Pension 10% Return	$2 Million Pension 5% Return	$2 Million Pension 10% Return	$5 Million Pension 5% Return	$5 Million Pension 10% Return
Total Return $	50,000	100,000	100,000	200,000	250,000	500,000
Tax Payable $	0	0	0	15,000	22,500	60,000
Fund Tax %	0	0	0	7.5%	9%	12%

The table above is simplistic – it does not take account of franking credits, reduced tax on capital gains, and other potential factors. It should represent the worst case scenario.

Some other technical points announced:

- For assets purchased before 5 April 2013, the reform will only apply to any capital gains that accrue after 1 July 2024
- For assets purchases from 5 April 2013 to 30 June 2014, individuals will have the choice of applying the new rules to the entire capital gain, or only the part that accrues after 1 July 2014
- For assets that are purchased from 1 July 2014, the reform will apply to the entire capital gain.

2. Concessional Contributions Caps

The previous proposal to limit a higher concessional contribution cap only to people with super fund balances below $500,000 has been scrapped. The proposal now is that an increased concessional contributions cap of $35,000 will be available to:

- People over 60 from 1 July 2013
- People over 50 from 1 July 2014.

Comment: These are relatively minor changes. The contribution caps will remain very restrictive.

3. Excess Contributions Measures

Excess concessional contributions will be able to be withdrawn from the super account from 1 July 2013. The excess will be taxed at marginal personal tax rates plus an interest component.
Comment: More detail is needed. Currently, excess concessional contributions count towards your non-concessional contribution cap of $150,000 per financial year.

4. Social Security Treatment

From 1 January 2014, all new account-based pensions will be subject to the deeming arrangements that apply to other investments for the purpose of the Income Test. All existing pensions at that date will not be impacted.

5. Council of Super Custodians

A council of Super Custodians will be established to ensure that any future changes to superannuation are consistent with an agreed Charter of Superannuation Adequacy and Sustainability.
Comment: some more bureaucracy!

More Information

Please don't hesitate to contact the Hub Wealth Management team if you would like to discuss your own circumstances and portfolio with us.

Please call us on 02 9279 3400 or email us through our website at www.hubwealth.com.au

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