HUB WEALTH MANAGEMENT

# Superannuation Reform Issues Update

Federal Parliament passed superannuation reform legislation the *Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016* in November 2016. Key aspects:

- A "transfer balance" cap of $1,600,000 on the size of account-based pension balance per person from July 2017;
- If super/pension balances exceed $1,600,000 at July 2017, no further non-concessional (after-tax) contributions can be made;
- Where non-concessional contributions can still be made, the annual limit will reduce from the current $180,000 to $100,000 per financial year. The bring-forward rules will still be available (so that up to 3 years of contributions can be made at once), but only where balances are below the $1,600,000 cap;
- From July 2017, concessional contributions are limited to $25,000 per financial year, down from current $35,0000;
- Anti-detriment payments (effectively a refund of contributions tax to beneficiaries of a deceased account-holder) will be abolished from July 2017;
- From July 2017, a resident individual will be entitled to a tax offset up to a maximum of $540 p.a. for super contributions made to an eligible spouse where the spouse's assessable income, reportable fringe benefits and reportable employer super contributions for the income year is less than $40,000 (current level is $13,000);
- A Low Income Superannuation Tax Offset (LISTO) will be available for people whose income is $37,000 or less so that those people will effectively receive a refund of any superannuation contributions tax paid;
- From July 2018, there will be the ability in certain circumstances to "catch up" previously unused cap amounts over the previous 5 years on concessional contributions e.g. where their total superannuation balances are below $500,000 as of 30 June in the previous year;
- There is no change to the internal tax of superannuation accumulation accounts, being a maximum of 15% on income and 10% on realised capital gains;
- There is no change to account-based pension structures, where no tax is payable on portfolio earnings, and minimum pension payments are determined by age and account balance must be taken each financial year.
- Transition to Retirement Pensions (TRPs) will see internal returns taxed like a normal accumulation super fund (up to 15% on income and 10% on realised gains) from July 2017. The accounts pay no tax on investment earnings up to 30 June 2017.

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# Background Information on Super and Pension Accounts

Features of pensions compared to super funds are summarised below.

| | Super Fund | Pension Account |
|---|---|---|
| **Contributions** | If under age 65<br>If meet work test over 65 | Only by rollover from super |
| **Tax on Account Earnings** | Up to 15% on income<br>10% on realised cap gains | Nil, except TRP (taxed as super from July 2017) |
| **Tax on withdrawal** | Taxable under 60, depending on tax component | Taxable under 60, depending on tax component |
| **Pay out income** | No | Yes, must be at minimum level or above (see below) |
| **Impact on Death** | Payable tax-free to spouse | Payable tax-free to spouse |
| **Investment Choice** | Any reasonable investment | Any reasonable investment |

## Account-Based Pension Minimum Payment Levels

Account-based (allocated) pensions must pay at least a minimum level of income each financial year to the account-holder. The level is determined by the age and account balance of the holder as at 1 July each year. The minimum pension payment levels are in the table below.

| Age | Minimum in 2016/17 and beyond |
|---|---|
| **Under 65** | 4% |
| **65-74** | 5% |
| **75-79** | 6% |
| **80-84** | 7% |
| **85-89** | 9% |
| **90-94** | 11% |
| **95 and over** | 14% |

## Super Contributions

| | 2016/17 | 2017/18 |
|---|---|---|
| **Non-concessional (after-tax)** | **$180,000 or up to $540,000 under “bring forward” rule** | **$100,000 or up to $300,000, but only if balance below $1.6 million** |
| **Concessional (including SGC and salary sacrifice)** | **Max $35,000** | **Max $25,000** |