STATE SUPER
SAS Trustee Corporation

Federal Budget 2016

What it means for your super and retirement

4 May 2016

The Turnbull Government handed down its first Federal Budget on Tuesday 3 May 2016.

A number of proposed key superannuation changes were announced in last night's Federal Budget, making this a very significant Budget for superannuation.

New measures will see low income earners continue to receive an important tax offset, while those earning over $250,000 will pay a higher rate of tax on their super contributions.

Importantly, most people will not be negatively impacted by the new measures. The Government has estimated that higher contribution taxes, together with new limits to the amounts you can contribute to super, will affect about four per cent of high income earning Australians.

These measures have different starting dates with some becoming effective immediately, others next year and some retrospectively.

Below is a summary of the proposed key changes to superannuation. We will provide members with additional information in relation to how these changes affect their State Super entitlements as it becomes available. Alternatively, links to related consumer fact sheets released by the Government are provided throughout the below content. There is also a defined benefit Treasury fact sheet which explains in more detail some of the specifics relating to defined benefit funds.

Low income tax offset retained

A tax offset that provides a super savings boost of up to $500 a year for those earning up to $37,000 has been retained. The Low Income Superannuation Tax Offset will replace the existing Low Income Superannuation Contribution (LISC) from 1 July 2017. The LISC was previously scheduled to expire on 30 June 2017.

See the Treasury fact sheet.

New contribution cap of $25,000 for all

From 1 July 2017, the annual concessional contributions cap has been lowered from $30,000 for those aged under 50, or $35,000 for those over 50 to $25,000 for all individuals. The cap will index in line with wages growth.

Members of defined benefit schemes will be permitted to make additional concessional contributions to accumulation schemes. However, the notional employer contribution amounts and any salary sacrifice amounts made by or on behalf of defined benefit members will count toward the $25,000 concessional contributions cap. The existing grandfathering arrangement regarding the concessional contribution cap protection of for State Super members will continue to apply.

See the Treasury fact sheet.

New lifetime non-concessional cap of $500,000

Effective from Budget night (May 3, 2016), a $500,000 lifetime cap on non-concessional contributions will apply for all individuals aged up to 75. This will apply retrospectively by taking into account all non-concessional contributions made since 1 July 2007. The new lifetime cap will replace current non-concessional arrangements which allow individuals to make contributions up to $180,000 per year (or $540,000 every 3 years if under age 65). This measure relates to non-concessional (after-tax) contributions NOT concessional contributions. The cap will be indexed in $50,000 increments in line with wages.

If an individual has exceeded the cap prior to commencement, they will be taken to have used up their lifetime cap but will not be required to take the excess out of the superannuation system.

From Budget night (3 May 2016), non-concessional contributions to defined benefit schemes made since 1 July 2007 will be included in the $500,000 lifetime 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.

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

From 1 July 2017, the Government will introduce a $1.6 million cap on the total amount of superannuation savings that can be transferred from a concessionally taxed accumulation account to a tax-free retirement account (for example an account based or allocated pension). Superannuation savings accumulated in excess of the cap can remain in an accumulation superannuation account, where the earnings will be taxed at 15%. Those individuals already in retirement as at 1 July 2017 with balances in excess of $1.6 million will need to either transfer the excess back into an accumulation superannuation account; or withdraw the excess amount from their superannuation. Individuals who think they may be affected by this new measure should consider seeking financial advice.

The Government will be consulting on the implementation of the superannuation tax reform measures to defined benefit schemes, specifically in relation to valuation of pensions and annuities for the purpose of aggregating multiple defined benefit and accumulation interests for the transfer cap proposal.

See the Treasury fact sheet.

Taxation of defined benefit pensions over $100,000 p.a.

To broadly replicate the effect of the proposed $1.6 million transfer balance cap, pension payments over $100,000 per annum paid to members of funded defined benefit schemes such as State Super, 50% of pension amounts over $100,000 per annum will be taxed at the individual's marginal tax rate.

See the Treasury fact sheet.

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

From 1 July 2017, people with superannuation balances of $500,000 or less will be able to rollover their unused concessional cap amounts (now set at $25,000 per year) for a period of 5 years. This measure means, those who qualify, can make super contributions over $25,000 in some years, where they have unused caps over the 5 year period. The measure has been designed to provide more flexibility for those who can make extra contributions and assist those returning to the workforce.

See the Treasury fact sheet.

Changes to Transition to Retirement (TTR)

Effective 1 July 2017, the tax exempt status of income from assets supporting transition to retirement income streams will be removed. This means that the earnings tax in TTR pensions will be 15%. This change will apply irrespective of when the transition to retirement income stream commenced. Individuals will no longer be allowed to treat certain superannuation income stream payments as lump sums for tax minimisation purposes. Individuals with a TTR pension should consider seeking financial advice.

See the Treasury fact sheet.

30% concessional contribution tax for those with incomes of $250,000 or more (Division 293 tax)

Individuals with incomes over $250,000 will be required to pay an additional 15% tax on their super contributions from 1 July 2017. The threshold was previously $300,000. To be liable for a total of 30% tax, a person would need to have at least $250,000 in combined income and concessional superannuation contributions annually.

In 2017–18, approximately 1% of all members within Australian superannuation funds are expected to pay Division 293 taxation. This change will also be reflected in defined benefit schemes.

See the Treasury fact sheet.

More people able to claim super tax deduction on voluntary contributions

From 1 July 2017, anyone under 75 will be able to claim an income tax deduction for personal superannuation contributions to an eligible fund, up to the new $25,000 concessional contribution cap. Previously, many self-employed people were unable to claim a deduction on their personal superannuation contributions, and not everyone had access to salary sacrificing arrangements. These amounts will count towards the individual's concessional contributions cap, and be subject to the 15% contributions cap.

See the Treasury fact sheet.

Work test for older Australians for contribution eligibility removed

From 1 July 2017, the work test which currently limits the ability of individuals aged 65 to 74 to make superannuation contributions will be removed. Individuals aged 65 to 74 will also be able to make contributions to a spouse aged under 75 without the spouse needing to meet a work test.

Until further notice, State Super Scheme rules limiting contributions to under age 70 will continue to apply.

Extension of the spouse tax offset

From 1 July 2017, the eligibility rules for claiming the tax offset for superannuation contributions partners make to their low income spouses 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 an income level above $40,000. Individuals under age 75 will be able to make contributions on behalf of their spouse who is under age 75.

See the Treasury fact sheet.

Anti-detriment payments to cease

From 1 July 2017, anti-detriment payments will cease. State Super currently provides anti-detriment payments on the death of a contributing or deferred member. Under the proposed change announced as part of the 2016–17 Commonwealth Budget, these payments will no longer be made.

More information

The full 2016–17 Budget is available on the Government's Budget website at **www.budget.gov.au.**

We recommend seeking professional financial advice about your options and what impact these measures may have on your retirement.

Need advice?

StatePlus, formerly known as State Super Financial Services provides a wide range of financial planning advice to current and former public sector employees and their families.

To book an obligation free appointment, call **1800 620 305** or visit **www.stateplus.com.au**

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