FEDERAL BUDGET
3 MAY 2016

Changes to Superannuation

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"I do have a diversified retirement plan:
30% hopes, 30% wishes, 40% prayers."

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CHANGE
AHEAD

Superannuation – Current State

- Income is generally taxed at a concessional 15%
- Income earned from assets held to provide for pensions is exempt from income tax.
- SMSF’s are entitled to a Capital Gains Discount (CGT) of one-third If assets have been held for at least 12 months (10%).

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Individual Income Tax Rates 2015-16

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $37,000	19c for each $1 over $18,200
$37,001 – $80,000	$3,572 plus 32.5c for each $1 over $37,000
$80,001 – $180,000	$17,547 plus 37c for each $1 over $80,000
$180,001 and over	$54,547 plus 45c for each $1 over $180,000

The above rates **do not** include the:

- Medicare levy of 2%
- Temporary Budget Repair Levy; this levy is payable at a rate of 2% for taxable incomes over $180,000.

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Summary of Changes to Superannuation

At 7:30pm on Tuesday 3 May 2016 Treasurer Scott Morrison announced a number of significant changes to superannuation. These are summarised as follows:

1. Concessional Contributions Cap
2. Catch-up Concessional Contributions
3. Division 293 Tax - for High Income Earners
4. Non-Concessional Contributions Cap of $500,000
5. Removal of 10% Rule
6. Low Income Superannuation Contribution
7. Low Income Spouse Superannuation Tax Offset
8. Removal of Work Test
9. $1.6 million Pension Limit
10. Transition to Retirement Pensions (TTRs)

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Concessional Contributions Cap

Reduction in Concessional Contribution Cap

Current:	Under 50s	$30,000
	Over 50s	$35,000
Proposed 1 July 2017:	Everyone	$25,000

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Catch-up Concessional Contributions

- Proposed 1 July 2017
- You will be allowed to make additional concessional contributions in excess of the $25,000 annual cap in a financial year with unused cap amounts from previous years.
- Amounts will be carried forward on a rolling basis for a period of five consecutive years and only unused amounts accrued from 1 July 2017 can be carried forward.
- Access to these unused cap amounts will be limited to those with a superannuation balances of less than $500,000.
- If you exceed the concessional contributions cap in a given year, extra tax will apply unless you are applying the 5 year carry over rule

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Concessional Contributions Catch-up

Assume in the year 2023 you wanted to make a large concessional contribution to reduce the capital gains tax on the sale of some shares. Ordinarily you would be limited to the $25,000 annual cap.

Year	2018	2019	2020	2022	2023
Contribution	$5,000	$6,000	$5,500	$5,500	$25,000

We understand (legislation yet to be released) that under the proposed catch-up strategy a concessional contribution of $103,000 could be made in the 2023 year, catching up the unused portion of the cap from the previous 4 years.

Year	2018	2019	2020	2022	2023
Contribution	$5,000	$6,000	$5,500	$5,500	$103,000

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Division 293 Tax – For High Income Earners

- Proposed from 1 July 2017.

- Income Threshold reduced from $300,000 to $250,000

  - From 1 July 2017, the Division 293 threshold currently at $300,000 will be lowered to $250,000. This means that individuals with a total income of over $250,000 (including superannuation contributions), will pay 30% tax on their concessional contributions.

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Non-Concessional Contributions

Non-Concessional Superannuation Contributions are after-tax contributions and do not form part of assessable income

Why make Non-Concessional Contributions:

- Tax saving on income
- Re-organisation nearing retirement
- Super Fund Borrowing
- Asset Protection

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Non-Concessional Contributions Cap

- Effective from 7:30pm on 3 May 2016
- A $500,000 lifetime non-concessional cap has been introduced. This replaces the existing annual Non-concessional contributions cap of $180,000 and the bring forward rule where you could contribute $540,000 in a single year by bringing forward 3 years worth of limits.
- The new non-concessional cap will take into account all non-concessional contributions made on or after 1 July 2007. Anyone who had already contributed more than $500,000 in non-concessional contributions since 1 July 2007 up to Budget night 3 May 2016, will not have to withdraw the excess contributions from their super fund.
- Anyone who has exceeded the lifetime cap after 3 May 2016 will have to withdraw any excess amounts otherwise they will be subject to penalty tax.

Removal of 10% Rule

- Proposed from 1 July 2017.

- All individuals up to age 75 regardless of their employment circumstances will be able to claim a income tax deduction for personal superannuation contributions up to the concessional cap of $25,000. Previously available mainly to the self-employed.

- Individuals who are partially self-employed and partially wage and salary earners, and individuals whose employers do not offer salary sacrifice arrangements will benefit from these changes.

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Removal of Work Test

- Proposed 1 July 2017

- If you’re aged between 65 and 74 years of age and want to make super contributions, from 1 July 2017, you no longer have to meet the work test (i.e the requirement that you work 40 hours over a consecutive 30-day period before you can make a contribution)

- From 1 July 2017 if you’re aged 65 to 74 you will be able to receive contributions from your spouse.

Low Income Superannuation Contribution

- Proposed from 1 July 2017.

- Low Income Superannuation Tax Offset (LISTO) will be introduced to reduce tax on super contributions for low income earners. This replaces the previous Low Income Super Contribution (LISC), which will stop on 30 June 2016.

- The LISTO will provide a non-refundable tax offset to superannuation funds, based on the tax paid on concessional contributions made on behalf of low income earners, up to a cap of $500.

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Low Income Spouse Superannuation Tax Offset

- Access will increase to the low income spouse superannuation tax offset as the income threshold will be raised to $37,000 (increased from $10,800). You could benefit from a $540 per annum rebate.

$1.6 million Pension Limit

- Proposed from 1 July 2017
- Currently there is no limit on the amount of assets that can be used to tax exemption on income earned by assets in a superannuation pension account
- There will be a limit placed on the amount of superannuation that can be transferred into a pension account, or can remain in an existing pension account, where the earnings are tax-free.
- The change also applies to existing balances held in superannuation on 1 July 2017.
- Amounts in pension phase in excess of the $1.6 million limit will have to be transferred into accumulation phase by 1 July 2017. Accumulation phase is where the tax rate is still concessional 15%

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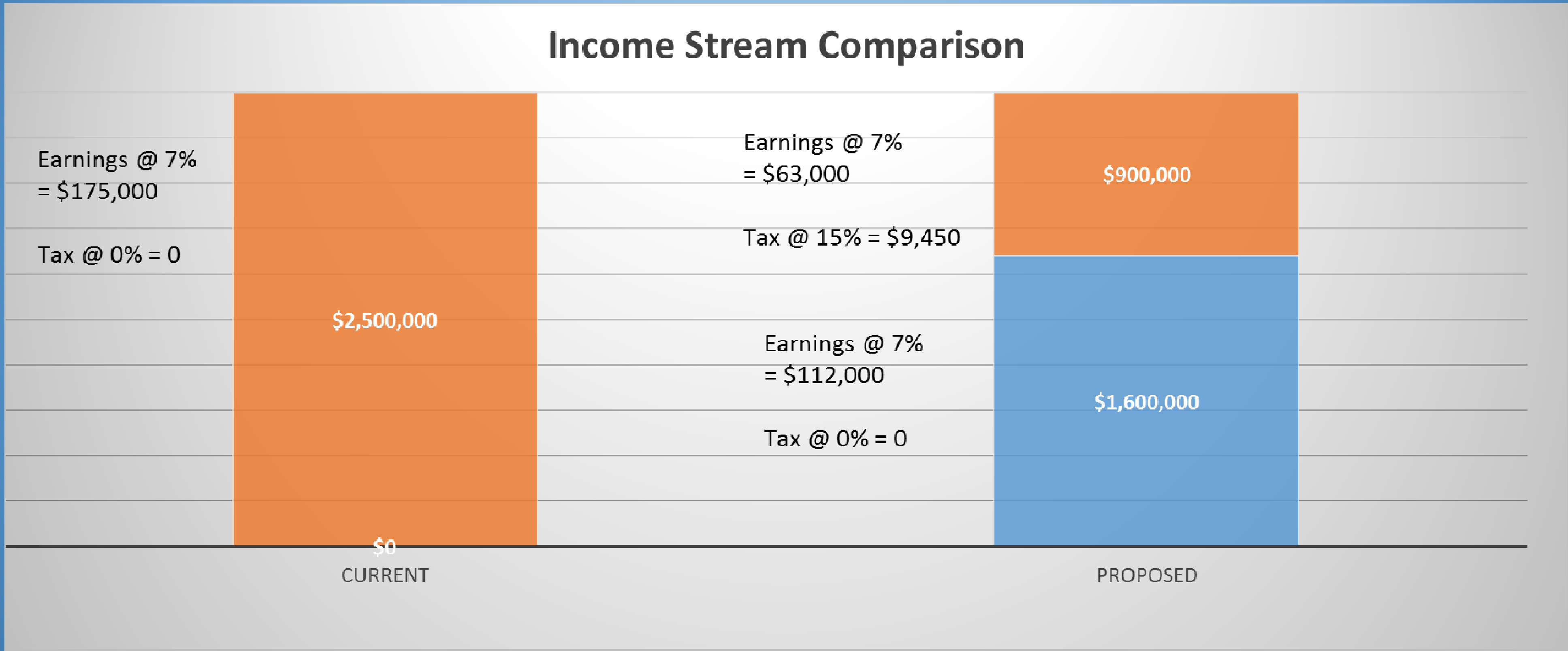
$1.6 million pension limit



Transition to Retirement Pensions (TTRs)

- Proposed 1 July 2017
- Earnings from a TTR pension will no longer be tax-free. The earnings will be taxed at up to 15%, the same as if they were in accumulation phase.
- Brings into line the intention of the policy when introduced in 2007
- Individuals will not be able to elect to treat withdrawals as tax-free lump sums

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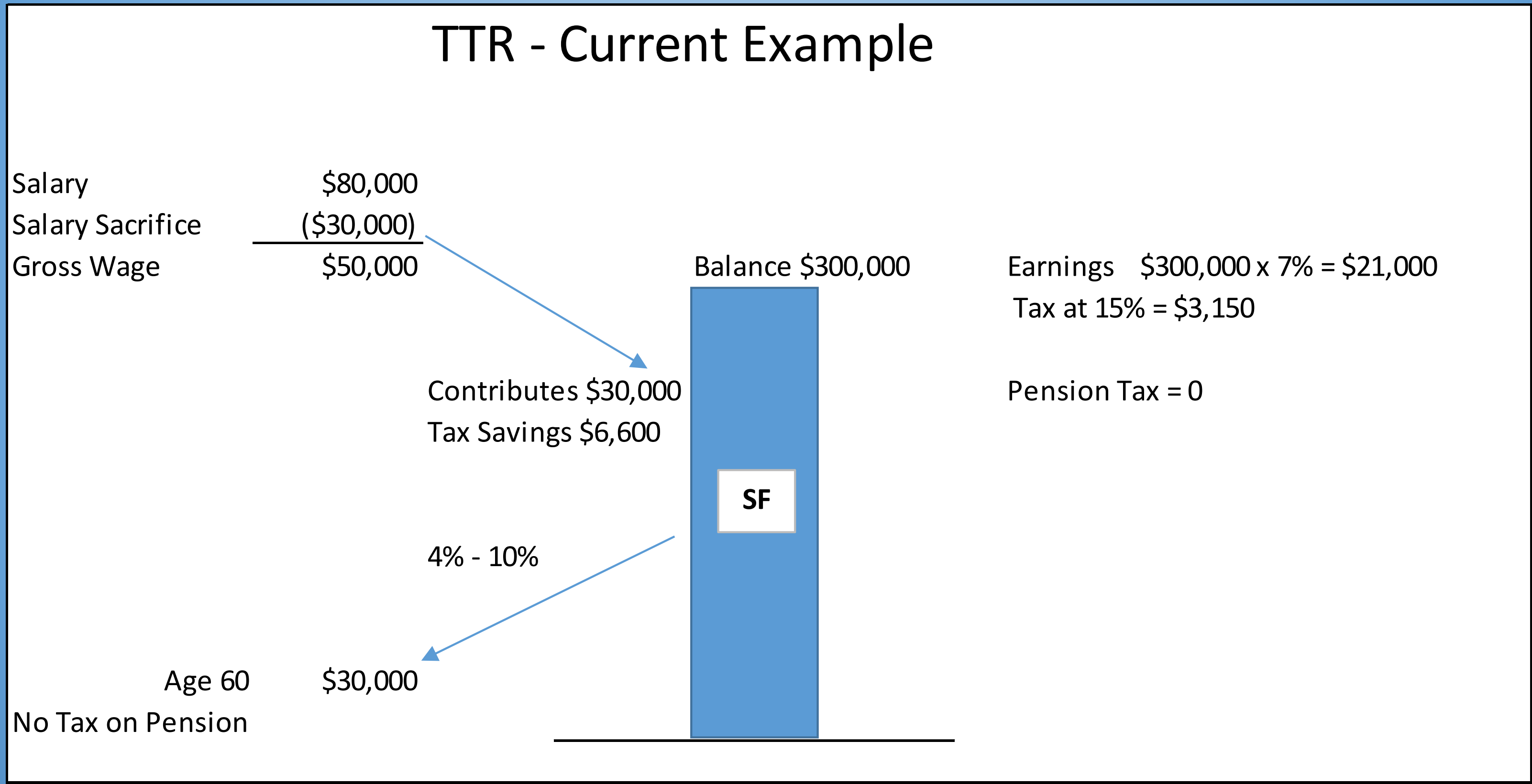
Transition to Retirement Pensions (TTRs)



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Changes to Preservation Ages

DOB	Preservation Age
Before 1/7/60	55
1/7/60 – 30/6/61	56
1/7/61 – 30/6/62	57
1/7/62 – 30/6/63	58
1/7/63 – 30/6/64	59
From 1/7/64	60

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