**Superannuation**

The Government will enshrine in law that the ***objective for superannuation*** is "**to provide income in retirement to substitute or supplement the Age Pension."**

**Contribution caps**
The concessional contributions (CC) cap will be reduced to $25,000 from 1 July 2017 and a lifetime non-concessional contributions (NCC) cap of $500,000 will apply from 7.30pm on 3 May 2016 for all individuals under age 75.

|  |  |  |
| --- | --- | --- |
| **Concessional cap** | **Current** | **Proposed** |
| Under age 49 | $30,000 pa | $25,000 pa from 1 July 2017  |
| Age 49 or over | $35,000 pa |
| **Non-concessional cap** |   |   |
| Under age 65 at 1 July | $180,000 pa or $540,000 over 3 years | $500,000 lifetime cap from 7.30 pm on 3 May 2016 |
| Age 65 or over at 1 July | $180,000 pa |

NCCs already contributed on or after 1 July 2007 count towards the $500,000 lifetime NCC cap, however NCCs over the lifetime cap (before commencement) will not result in an excess.  NCCs in excess of the $500k cap after commencement can be refunded and if not refunded will incur penalty tax.

The lifetime NCC cap will include after-tax contributions made to defined benefit accounts and constitutionally protected funds.  Where a defined benefit member exceeds their lifetime cap, ongoing contributions can continue but the member must, on an annual basis,  remove an equivalent amount (including proxy earnings) from any accumulation account they hold (limited to the amount of NCCs made since 1 July 2007).  Contributions made to a defined benefit account will not be required to be removed.  Members who do not have NCCs available to be removed will be treated equitably under further government consultation.

Notional (estimated) and actual employer contributions will be included in the CC cap for members of unfunded defined benefit schemes and constitutionally protected funds, from 1 July 2017.  Members of these funds will have the opportunity to salary sacrifice. Existing grandfathering arrangements will continue for members of funded defined benefit schemes as at 12 May 2009.

**Catch-up concessional contributions**

Individuals with super balances under $500,000 will be able to bring forward previously unused concessional cap amounts from 1 July 2017.  For example, if an individual contributes $20,000 in the 2016/17 financial year, they will be able to make an additional $5,000 CC on top of the $25,000 CC cap in 2017/18.

The unused amounts can be carried forward on a rolling basis for a period of five (5) consecutive years. It must be emphasised, this will only apply to amounts accrued from 1 July 2017.

**Tax deduction for super contributions extended**

Individuals up to age 75 will be able to claim a tax deduction for their personal superannuation contributions up to the CC cap from 1 July 2017, regardless of their employment circumstances.

Advice implications

Whilst the cuts to concessional contributions were not as harsh as speculated, advisers will need to revisit contribution strategies, especially for those over 50 years of age.  Withdrawal and recontribution strategies will now be limited to a maximum of $500,000.

Individuals who may wish to increase superannuation contributions, yet not enter into a salary sacrifice arrangement, will be able to make a personal contribution to super up to the $25,000 cap (less SG contributions) enabling them to assess their cash flow needs throughout the year.
Clients no longer need to be wholly or substantially self-employed to get a tax deduction for personal super contributions.  For example, a full-time employee will be able to get a tax deduction for personal super contributions.

Advisers may consider reviewing insurance strategies for any cover held in superannuation, in particular for those clients nearing retirement and looking to maximise their contributions. Consideration may be given to holding life insurance outside of superannuation and use of insurance bonds as a “next best” investment option once contribution caps are exhausted.

**Super contributions tax - high income earners**

Individuals with adjusted taxable income (ATI) of $300,000 currently pay an additional 15% tax (total of 30%) on concessional super contributions.

The income threshold will be reduced to $250,000 from 1 July 2017.

How this works in practice:

* If ATI is $240,000 and concessional contributions (CCs) of $25,000 are made; 30% contributions tax will apply on $15,000 of CCs and 15% will apply on the remaining $10,000 CCs.
* If ATI is over $250,000 without CCs, all CCs will be taxed at 30%.

The $250k threshold will also apply to members of defined benefit schemes and constitutionally protected funds currently covered by the additional tax. Existing exemptions (such as State higher level office holders and Commonwealth judges) will be maintained.

Advice implications
The tax concession on concessional contributions will be effectively diluted to 19%   for those with income over $250,000 on a MTR of 49%.

**Removal of work test**

The work test (40 hours in 30 consecutive days) will be scrapped for individuals aged between 65 and 74 who wish to make super contributions.  Individuals age 65-74 will also be able to receive spouse contributions.

Advice implication
Older individuals will have greater opportunities to boost retirement savings.

**Retirement income balance cap of $1.6m**

A $1.6 million cap will apply on the amount that can be transferred into the superannuation pension phase from 1 July 2017.  There will be no restriction on earnings on the cap amount.  Amounts in excess of the $1.6 million cap transferred (including earnings on the excess) will attract the same tax treatment as excess non-concessional contributions (excess unrefunded NCCs are currently taxed at 49%).

Accumulated super in excess of $1.6 million will be able to be retained in a member’s accumulation account (with earnings taxed at 15%).  Members already in pension phase with balances in excess of the $1.6 million cap will need to roll back the excess to accumulation by 1 July 2017.

Similar tax treatment will apply to members of defined benefit funds for pension amounts over $100,000 from 1 July 2017.

The Government will consult with industry on the implementation of this measure.

**Transition to Retirement**

The tax exemption on earning on assets supporting transition to retirement income streams will be removed from 1 July 2017.  The ability to treat certain superannuation income stream payments as lump sums for tax purposes will also be removed.

Advice implications
TRIS strategies will still be tax-effective, albeit at a reduced rate from 1 July 2017.

**Low Income superannuation tax offset (LISTO)**

The LISTO will provide a non-refundable tax offset to superannuation funds, based on concessional contributions tax paid up to a cap of $500, from 1 July 2017.  The LISTO will apply to concessional contributions made on behalf of low-income earners with adjusted taxable income up to $37,000.

The LISTO replaces the existing low-income super contribution (LISC) which will be abolished for concessional contributions made from 1 July 2017.

**Low Income tax offset spouse threshold**

The income threshold of a low income spouse for the purposes of the spouse contribution tax offset will increase from $10,800 to $37,000, from 1 July 2017.

To be entitled to the maximum tax offset of $540 from 1 July 2017, the eligible spouse contributions must be made on behalf of a spouse whose assessable income, reportable fringe benefits and reportable employer super contributions in a financial year is less than $37,000.

**Anti-detriment**

The anti-detriment payment (essentially a refund of contributions tax) will be removed from 1 July 2017.