

Super topics

2006 Budget changes

Some of the most significant changes to superannuation in recent years were announced in the 2006 Federal Budget. Some changes, notably some of those relating to contributions are already applicable, others will only be implemented from July 2007 should the proposals be passed into law.

Key changes

Key changes announced in the May 2006 Budget proposals include:

- Removing reasonable benefit limits (RBLs);
- Eliminating tax on lump sum and pension benefits for those aged 60 and over where those benefits are paid from taxed superannuation funds;
- Removing age-based deductible contribution limits for employers and the self-employed (although a higher rate of tax will be payable on deductible contributions above \$50,000);
- Introducing 100% deductibility for contributions made by the self-employed.

This is in addition to changes to introduce greater flexibility in how and when super benefits can be withdrawn.

Transitional arrangements relating to limits on undeducted contributions and employer eligible termination payments (ETPs) that can be accepted by superannuation funds have also been announced.

Contributions

As part of the transition, individuals able to satisfy the work test can make undeducted contributions of up to \$1 million between 30 May 2006 and 30 June 2007.

From 1 July 2007, for those under 65, the maximum undeducted contributions limit will be increased to \$150,000 per year or \$450,000 averaged over three years. For people 65 or over, they will only be able to make undeducted contributions up to \$150,000 each year if they satisfy the work test.

Undeducted contributions in excess of these maximums will be taxed at the top marginal rate plus Medicare. Note that the limits exclude proceeds from a settlement for permanent disablement injury or a Government co-contribution. Undeducted contributions will generally include all post-tax contributions, including spouse contributions.

The changes will not remove the requirement to pay superannuation guarantee (SG) contributions for all employees under age 70.

Withdrawal of superannuation benefits

From 10 May 2006 individuals will not be required to take their superannuation as a lump sum, pension or combination. Instead, benefits can remain within the superannuation system indefinitely.

In addition, pensions will be much more flexible, with individuals able to take as much as they like, when they like, as a pension provided that a minimum amount is taken annually. During the transition period, to a retirement pension individuals will not be able to take out more than 10% of their annual opening account balance.

Benefit payments

Transfers of benefits under a portability request must be made by a superannuation fund within 30 days (not 90, as previously) of receiving all the necessary information. A standardised portability form is to be developed for use by all superannuation funds.

Employer ETPs

Employer ETPs will continue to have a pre-July 1983 component. Employers will be required to calculate this on payment of an employer ETP.

Transitional arrangements will also apply for employer ETPs specified in employment contracts as at 9 May 2006 that are paid between 1 July 2007 and 1 July 2012. Under these arrangements, the first \$140,000 will be taxed at 15% (30% if the individual is under 55 years), the next \$860,000 at 30% and the balance at the top marginal tax rate.

These transitional employer ETPs will be able to be transferred to superannuation and be taxed at a flat 15% but will be excluded from the deductible contributions limits and any amounts in excess of \$1 million will be taxed at the top marginal rate.

The \$140,000 concessional employer ETP tax threshold will be indexed. Details are still to be released.

Further information

For further information, contact AustralianSuper on 1300 300 273 or www.australiansuper.com