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## Simplified and Streamlined Superannuation from 1 July 2007?

### A look at the Government's proposal to "simplify and streamline Superannuation"

In May 2006, the Government released its plan to simplify and streamline superannuation. These changes will see an increase in self-managed super funds.

Self-managed super funds will in more ways than one benefit those wishing to manage their own super.

Plans to manage your super can be put in place now to take advantage of the new superannuation rules beginning 1 July 2007 including:

- > the ability to make deductible contributions of up to \$50,000 per annum to be taxed at the concessional rate of 15% within the fund;
- > additionally, contributions of up to \$150,000 can be made from income on which tax has already been paid. Earnings on these contributions would continue to be taxed at a concessional rate of a maximum of 15% (10% on capital gains where the asset is held for 12 months) within the fund;
- > for those aged 50 years and over, a transitional period from 2007 to 2012 will apply allowing a maximum contribution of \$100,000;

- > the self employed can claim full deductions for all contributions and access to the Government's co-contribution scheme for post tax contributions.

**Please feel free to contact a member of the Piper Alderman Superannuation Team for personalised advice in managing your super from 1 July 2007. The following is an overview look at the Government's superannuation plan set to commence 1 July 2007.**

Under the Government's plan the following changes are proposed from 1 July 2007:

- > Tax free superannuation benefits for people aged 60 and over;
- > Benefits paid from an untaxed scheme (mainly affecting public servants) would still be taxed, although at a lower rate than they are now for people aged 60 and over;
- > A simplification of the tax rules applying to benefits paid before age 60;
- > Abolition of the Reasonable Benefit Limits (RBLs);
- > No forced payment of superannuation benefits, allowing individuals to have greater flexibility as to how and when to draw down on their superannuation in retirement;



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- > Retention of the concessional tax treatment of superannuation contributions and earnings. Age-based restrictions limiting tax deductible superannuation contributions would be replaced with a streamlined set of rules;
- > The self employed would be able to claim a full deduction for their superannuation contributions as well as being eligible for the Government co-contribution for their personal after-tax contributions;
- > The ability to make deductible superannuation contributions to be extended up to age 75;
- > The implementation of a more user friendly system for people to find and transfer their superannuation between funds;
- > The payment of lump sum death benefit payments to be tax free if paid to a dependant.

### What does this mean for the average worker retiring at age 60?

The simplified system will mean that a person who receives a super benefit will have the choice of taking the benefit either as:

- > a lump sum; and/or
- > series of lump sums; and/or
- > income streams

all of which are tax free after the age of 60.

The Government's above proposed changes are discussed below.

### Preservation Age

The preservation age (the age at which retired individuals can access their superannuation) will not be changed.

From June 1998, the preservation age applicable to a person depends on the birthday of the person as set out in the table below:

For a person born	Preservation Age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

The preservation age for those people born before 1 July 1964 is legislated to increase from the current preservation ages shown above to 60 between the years 2015 and 2025.

Superannuation benefits can still be accessed before the age of 60, although they will continue to be taxed under the new simplified rules.

### Flexibility to draw on superannuation reserves

The Government's proposal aims to provide individuals with greater flexibility over how much of their superannuation they take and when they take it, in particular:

- > compulsory withdrawals of super benefits to be abolished. Presently, once an individual reaches the age of 75 (or from age 65 in the circumstance where an individual does not meet the current work test) funds are forced to pay out benefits to members.
- > individuals would be allowed to take their benefits as a regular income stream or lump sum or leave their benefits in the fund and draw on them when they want; and
- > new minimum standards for all pensions to commence on or after 1 July 2007 including:
  - minimum annual payments
  - no provision to be made for an amount to be left over when pension ceases;
  - pensions only transferable on death to a dependant or cashed as a lump sum to the pensioner's estate.

#### \* Proposed minimum annual pension payments

Age	Percent of account balance (average)
55-64	4
65-74	5
75-84	6
85-94	10
95+	14

### Simplified Contribution Rules

- > Age-based deduction limits to be abolished – instead, deductible contributions up to a limit of \$50,000 per person per annum would be taxed at the concessional 15% rate. A transitional period from 2007 to 2012 allowing a maximum contribution of \$100,000 would apply for people aged 50 and above as under the current arrangements, the age-based deduction limit for people aged 50 and over is \$100,587.
- > No tax payable on Member contributions (being contributions made from income after the individual has already paid tax). Member contributions would be limited to \$150,000 in a year. The Government is still considering whether this cap should be averaged over three years.

- > Earnings on these contributions would continue to be taxed at a concessional rate of a maximum of 15% (10% on capital gains where the asset is held for 12 months).
- > Employers to receive a full deduction for all superannuation contributions they make for employees up to age 75.

**\*Table 4.1: Comparison of taxation on deductible contributions under current system and proposed system**

<b>Current contribution rules (as at 1 July 2005)<sup>(a)</sup></b>	
Contributions below the age-based limits	
<35 years      \$14,603 pa	15% contributions tax
35-49 years      \$40,560 pa	
50-69 years      \$100,587 pa	
Contributions above the age-based limits	15% contributions tax plus 30% deduction denied
<b>Proposed contribution rules (as at 1 July 2007)<sup>(a)</sup></b>	
Concessional contributions limited to \$50,000 pa	15% tax

- > Contributions are deductible up to the age- based limits.
- > Contributions would be fully deductible. The ATO would identify any contributions made above this limit. These contributions would be taxed at the top marginal tax rate.

#### **Untaxed schemes (mainly for public servants)**

Lump sum benefits paid from an untaxed source to those aged 60 or over would be taxed at 15% on lump sums up to a total of \$700,000. Amounts above this threshold would be taxed at the top marginal tax rate.

Pensions paid to those aged 60 or over would be taxed at marginal tax rates but receive a 10% offset. For example, a person who received a pension of \$50,000 per annum would receive a reduction in their tax of about \$5,000.

**\*Table 8.2: Comparison of current system to proposed system – post-June 1983 untaxed element**

<b>Taxpayer's age</b>	<b>Current system</b>	<b>New system</b>
<b>Under 55</b>	30%  Excessive component – 47%	30% up to \$700,000  Top MTR above
<b>Age 55-59</b>	Up to threshold (\$129,751) – 15%  Over threshold – 30%  Excessive – 47%	Up to threshold (\$129,751) – 15%  Over threshold 30%  Over \$700,000 – Top MTR
<b>Age 60 and over</b>	Up to threshold (\$129,751) – 15%  Over threshold – 30%  Excessive – 47%	Up to \$700,000 – 15%  Over \$700,000 – Top MTR

#### **Contribution Incentives for the Self-employed**

Currently, the self-employed can claim a tax deduction for the first \$5,000 of superannuation contributions and then 75% of any contributions above this amount.

It is proposed that the self-employed (and other eligible persons currently able to claim deductions for contributions made to superannuation) would also be eligible to claim a full deduction for all contributions.

It is also proposed that the eligible self-employed persons would have access to the Government co-contribution scheme for their post tax contributions.

#### **Aged Pension Arrangements**

The current 50% assets test exemption for complying income streams would be removed from 20 September 2007. In its place it is proposed to reduce the pension assets test taper rate to \$1.50 per fortnight for every \$1,000 of assets above the free area.

All pension payments from a taxed source would be tax free when paid to individuals aged 60 or over, including pensions which commenced before 1 July 2007. There would be no RBL.

**Other Measures**

The Government is also proposing to reform the taxation of employer eligible termination payments (ETPs).

Currently, employer ETPs and lump sum payment of superannuation benefits are counted together in determining if payments exceed the RBLs. With the proposal that superannuation benefits no longer be subject to RBLs, some changes may be necessary to ensure there would be an appropriate cap on the concessional taxation treatment of large employer ETPs. It is proposed that employer ETPs not be able to be rolled over into superannuation.

**Making it Easier to Find and Transfer Superannuation**

It is proposed that the ATO would have an increased role in locating lost superannuation and consolidating accounts through a new standardised form. It is also proposed to reduce the maximum 90 days for funds to process a transfer request to 30 days. A standardised form for use by all funds will also be introduced (including standardised proof of identify checks) for individuals to complete if they wish to directly arrange a transfer request through their fund.

**\*Comparison of Current System to Proposed System**

Below is a summary in table format of how the Government’s proposed changes will affect the superannuation benefits paid to individuals.

Component	Current tax treatment	Proposal
Pre-July 1983	5% taxed at marginal rates	Exempt component
Concessional	5% taxed at marginal rates	
Undeducted contributions	Exempt	
Post-June 1994 invalidity	Exempt	
Capital gains tax exempt	Exempt	
Non-qualifying	Marginal rates	Taxable component* (see below)
Post-June 1983	Taxed as per table below	
Excessive	38%	Abolished

**\*Taxable component**

Taxpayer's age	Current tax treatment (for post-June 1983)	Proposal
Under 55	20%	20%
Age 55-59	Up to threshold (\$129,751) – 0% Over threshold – 15%	Up to threshold (\$129,751) – 0% Over threshold – 15%
Age 60 and over	Up to threshold (\$129,751) – 0% Over threshold – 15%	Exempt

**Contacting Us:**

Feel free to contact a member of the Piper Alderman Financial Services team if you require information as to how the Government’s proposed changes will affect you or your business.

\* All tables reproduced in this article have been sourced from the Government’s paper: “A Plan to Simplify and Streamline Superannuation, May 2006”. A copy of this paper can be found at: [http://www.budget.gov.au/2006-07/overview2/html/overview\\_01.htm](http://www.budget.gov.au/2006-07/overview2/html/overview_01.htm).

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