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Lifestyle Newsflash

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Proposed Superannuation Reforms

Not good – but it could have been a lot worse…

With regular monotony, we continue to update you with more changes to superannuation…and, unfortunately, it is more bad news…but not as bad as we were expecting.

The Labor Government has taken the unusual step of announcing its May 2013 Budget intentions around what it calls Superannuation Reform. This might just be its last chance to take one more bite out of the superannuation pie before the Federal Election so every aspiring self funded retiree is nervous.

Please note that these are proposed changes only. The final changes will come out in the May Budget and, of course, we will update you on the details at that time.

Superannuation Income Streams

- The tax free status of retirement phase investment earnings will be retained, but capped at $100,000 (indexed by CPI) attributed to each individual member. Annual investment earnings above $100,000 within each individual's account will be taxed at a concessional rate of 15 per cent, in the hands of the fund.
- Capital gains tax will apply to assets (in pension phase) if purchased after 1 July 2014. Special arrangements will apply for capital gains on assets purchased before 1 July 2014:
  - for assets that were purchased before 5 April 2013, the reform will only apply to capital gains that accrue after 1 July 2024;
  - for assets that are purchased from 5 April 2013 to 30 June 2014, individuals will have the choice of applying the reform to the entire capital gain, or only that part that accrues after 1 July 2014; and,
  - for assets that are purchased from 1 July 2014, the reform will apply to the entire capital gain.
- This reform will not affect the tax treatment of regular income payments or withdrawals. Withdrawals will continue to be tax-free for those aged 60 and over, and face the existing tax rates for those aged under 60.

Contribution Caps

- The Government has decided to scrap the $50,000 concessional cap linked to super balances under $500,000. This will be replaced with an unindexed $35,000 concessional cap. From 1 July 2013, this will apply to all individuals aged 60 and over. From 1 July 2014 this will apply to individuals aged 50 and over.

Excess Contributions Tax

- The Government will allow all individuals to withdraw any excess concessional contributions made from 1 July 2013 from their superannuation fund.
- Alternatively, the Government will tax excess concessional contributions at the individual's marginal tax rate, plus an interest charge to recognise that the tax on excess contributions is collected later than normal income tax. These rules will ensure that individuals are taxed on excess concessional contributions in the same way as if they had received that money as salary

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or wages and had chosen to make a non-concessional contribution.

Other Changes

- The Government also announced there will be other changes in relation to deeming rules, lost superannuation and the creation of a Council of Superannuation Custodians. More details on these will be given in May 2013.

Your Next Step

- The proposed changes should not create a panic or a requirement to drastically change arrangements prior to the May Budget or 30 June Year End. However, it will require a recalculation of long term superannuation projections and review of current tax structures.

- What is very clear, though, is that the proposed changes will create a need to consider alternative tax structures and wealth creation strategies to deal with a tax and superannuation environment that is now returning to the complex world it once was prior to 2007 (when it was simplified by the then Treasurer, Peter Costello).