Australian SMSF Solutions

Government announces Super changes

On Friday 5 April 2013 the Minister for Financial Services and Superannuation, the Hon Bill Shorten MP, and the Deputy Prime Minister and Treasurer, the Hon Wayne Swan MP, announced the Government's proposed changes to the superannuation laws. The Government have aimed the changes at creating what they believe will be a more equitable and sustainable retirement income system.

The following is a summary of the announced changes to superannuation

1. **Changes to the tax exemption for earnings on superannuation assets supporting income streams**

   From 1 July 2014, earnings on assets supporting income streams above $100,000 per year will be taxed at a rate of 15 per cent. This is in contrast to the current rules where all earnings from assets supporting superannuation income streams are tax-free. The Government estimates that this measure will only affect 16,000 superannuation members who are estimated to have superannuation balances of $2 million and over.

   The Government has said it will ensure that members of defined benefit funds will be equally impacted by this change as members of accumulation funds. This will be achieved by calculating a notional earnings for each year a defined benefit member is in receipt of a concessionally taxed superannuation pension.

   The measure grandfathers the CGT treatment of existing assets supporting income streams until 1 July 2014. This will cause the CGT treatment of assets supporting income streams to have a three tiered structure over the next 10 years so that for:

   - assets that were purchased before 5 April 2013, the reform will only apply to capital gains that accrue after 1 July 2024;
   - 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
   - assets that are purchased from 1 July 2014, the reform will apply to the entire capital gain.

2. **Increasing the concessional caps for certain superannuation members**

   The concessional contribution cap will be increased so that:

   - From 1 July 2013 taxpayers aged 60 and over will have a $35,000 cap; and
   - From 1 July 2014 taxpayers aged 50 and over will have a $35,000 cap.

   This will replace the Government's previous proposal of a higher cap for over 50s with balances under $500,000. The Government abandoned this proposal due to industry criticism that the proposed measure was too complex and difficult to administer.

   The general concessional cap is expected to reach $35,000 by 1 July 2018.

[redacted]

3. **Reform of the Excess Contribution Tax treatment of excess concessional contributions.**

   The new Excess Contribution Tax (ECT) regime for concessional contributions will allow taxpayers that have exceeded their concessional contribution cap after 1 July 2013 to withdraw the excess contribution from their superannuation fund with the excess contribution being taxed at the taxpayer's marginal rate. In addition, an interest charge will be levied on the excess contribution to recognise that tax on excess concessional contributions is collected at a later date than normal income tax.

   The result of these changes is that an excess concessional contribution will be taxed in the same way that a non-concessional contribution would have been taxed.

4. **Council of Superannuation Custodians**

   The Government has proposed to establish a Council of Superannuation Custodians to ensure that future changes to superannuation are consistent with a Charter of Superannuation Adequacy and Sustainability.

   The Council will be responsible for assessing future superannuation policy changes against principles of certainty, adequacy, fairness and sustainability. The Council will provide an annual report to be tabled in Parliament.

5. **Extending normal deeming rules to superannuation account based income streams**

   The Government has proposed to extend the normal deeming rules to superannuation account-based income streams for the purposes of the pension income test. The Government said this was to ensure all financial investments are assessed fairly and under the same rules.

   From 1 January 2015 the standard pension deeming arrangements will apply to new superannuation account-based income streams assessed under the pension income test rules.

   All products held by pensioners before 1 January 2015 will be grandfathered indefinitely and continue to be assessed under the existing rules for the life of the product so no current pensioner will be affected, unless they choose to change products.

6. **Extending concessional tax treatment to deferred lifetime annuities**

   The Government will provide the same concessional tax treatment that superannuation assets supporting superannuation income streams receive for deferred lifetime annuities. This will apply from 1 July 2014.

7. **Changes to the arrangements for lost superannuation**

   The Government will further increase the account balance threshold for lost superannuation to be held by the Australian Taxation Office to $2,500 from 31 December 2015, and to $3,000 from 31 December 2016.