A few things have changed in super

Many of the federal government's superannuation reforms came into effect on 1 July. Here's what's new.

The government says it has tried to make the superannuation system more sustainable and has introduced more flexibility to suit modern work patterns. This is what has changed.

Additional 15 per cent tax for high income earners and concessional contributions cap

The income threshold at which high-income earners pay additional 15 per cent tax on certain concessional contributions has been lowered to $250,000 from $300,000. The annual cap on concessional (before-tax) contributions has also been lowered to $25,000.

The reduced threshold will affect about 1 per cent of account holders,[1] while the lower annual concessional contributions cap will affect about 3.5 per cent.[2]

Non-concessional contributions

The annual non-concessional contributions cap has been cut to $100,000 and $300,000 for those eligible to use the bring-forward provisions. Non-concessional contributions will no longer be available to people with total super balances of $1.6 million or more by the end of the previous financial year. People under the age of 65 will still be able to bring forward up to three years of non-concessional contributions.

This measure is expected to affect less than 1 per cent of fund members.[3]

Access to concessional contributions

Previously, only people who earned less than 10 per cent of their income from salary or wages could claim a tax deduction for personal superannuation contributions. Now, generally, anyone under the age of 65 – and those aged 65 to 74 who meet the work test – can claim a tax deduction up to the concessional contributions cap.

This will benefit the 800,000 or so people[4] who are partially self-employed and partially wage and salary earners, and individuals whose employers do not offer salary sacrifice arrangements.

The transfer balance cap

There is now a $1.6 million cap on the total amount that can be moved into the tax-free retirement phase. However, subsequent earnings on balances in the retirement phase will not be capped or restricted.

People with existing super income streams were required to take action by 30 June 2017 to ensure that they had no more than $1.6 million in super income streams. Additional time to comply is available for those who have a breach of $100,000 or less.

Less than 1 per cent of account holders[5] will be affected, as the average superannuation balance for a 60-year-old is expected to be $240,000 in 2017–18.

Low-income superannuation tax offset

A low-income superannuation tax offset replaces the low-income superannuation contribution. Under this measure, eligible individuals with an adjusted taxable income of up to $37,000 can get refunds on the tax paid on concessional contributions up to a cap of $500.

This avoids the situation where low-income earners pay more tax on contributions than on their take-home pay. The refunds will go into the superannuation account.

It is estimated that about 3.1 million low-income earners will benefit, including about 1.9 million women.[6]

Catch-up concessional contributions

People with a total superannuation balance of less than $500,000 before the start of a financial year can use any carried forward unused concessional contributions for up to five years. In 2019–20, this will help about 230,000 people.[7]

The spouse tax offset extended

The spouse tax offset is now available to more couples as eligibility has been extended to people whose recipient spouses earn up to $40,000. This is an increase from $13,800, and about 5,000 people are expected to use the change.[8]

Innovation barriers removed

The tax exemption on earnings in the retirement phase has been extended to encourage the creation of a wider range of products. This will provide more flexibility and choice for retirees to help them avoid outliving their savings.

Transition to retirement income streams

Taxable income from assets supporting transition to retirement income streams are no longer tax-exempt at the super fund level. Instead they will be taxed at 15 per cent.

Pension payments continue to be tax free if the individual is 60 or over.

Individuals will also no longer be allowed to treat certain superannuation income stream payments as lump sums for taxation purposes. About 110,000 people will be affected.[9]

Anti-detriment rule abolished

The anti-detriment provision that allows superannuation funds to claim a refund of the 15 per cent tax on contributions paid by the deceased member over their lifetime has been abolished. However, lump sum death benefits will continue to be tax-free.

Seek advice

As these changes are very complex, it's a great idea to talk them through with an expert who may help you safeguard your financial future.

Source:
1 | Australian Government, The Department of the Treasury, 'Superannuation Reforms'.
2-9 | Ibid.