Budget 2016

JOBS & GROWTH

A superannuation system that is sustainable, flexible and has integrity

Legislation to implement the Government's superannuation reforms passed the Parliament on 23 November 2016. The superannuation reform package was announced in the 2016-17 Budget and amended following consultation. The changes improve the fairness, sustainability, flexibility and integrity of the superannuation system.

On 9 November 2016, the Government introduced the Superannuation (Objective) Bill 2016, which will enshrine the objective of superannuation in legislation. It sets out a clear objective for superannuation: 'to provide income in retirement to substitute or supplement the Age Pension', which guided the superannuation changes. The Objective Bill is being considered by the Economics Legislative Committee, which is due to report on 14 February 2016.

These fact sheets explain the reforms to the superannuation system. Most measures will take effect from 1 July 2017.Better targeted tax concessions will make the superannuation system more sustainable while fiscal challenges are ongoing. Annual caps will constrain the ability to build large balances while allowing individuals to save for retirement consistent with the objective of superannuation. Savings also enable reforms that allow the system to work better for all Australians and increase its flexibility to align with the changing work-life patterns of modern Australia.

Overview of Superannuation Reforms

This package of reforms will improve the sustainability, flexibility and integrity of the superannuation system.

Sustainability

The Government is better targeting tax concessions to ensure that the superannuation system is sustainable, affordable and equitable by:

- introducing a $1.6 million cap on the total amount of superannuation that can be transferred into 'retirement phase' accounts;
- requiring those with incomes (including superannuation) greater than $250,000 to pay 30 per cent tax on their concessional contributions, up from 15 per cent, consistent with current treatment for people with incomes over $300,000;
- lowering the concessional contributions caps so that individuals can contribute up to $25,000 per annum pre-tax to superannuation;
- lowering the annual non-concessional contributions cap to $100,000 for those with superannuation balances below $1.6 million, with a 3 year bring forward available for individuals under age 65; and
- introducing a Low Income Superannuation Tax Offset to replace the Low Income Superannuation Contribution when it ends on 30 June 2017, to continue to support the accumulation of superannuation for low income earners.

Flexibility

Recognising that individuals have different work patterns across their lives, the Government will also improve the flexibility of the superannuation system by:

- allowing more Australians to claim a tax deduction for personal superannuation contributions made to an eligible fund, irrespective of their employment arrangements;
- allowing the rollover of unused concessional caps so that those with interrupted work arrangements and low superannuation balances can make 'catch up' superannuation contributions;
- encouraging partners to make contributions to their low income spouses' superannuation by extending the eligibility for individuals to claim a tax offset for these contributions; and
- removing barriers to innovation in the creation of retirement income products by extending the tax exemption to other products.

Integrity

The superannuation changes will improve the integrity of the superannuation system by reducing the extent to which it is used for tax minimisation and estate planning. The introduction of tighter caps are key elements in improving confidence that the system is being used for its core purpose.

The Government will further improve the integrity of the superannuation system by:

- ensuring that the transition to retirement income stream regime is fit for purpose and participants are less motivated by tax benefits; and
- removing the out dated anti-detriment provision.

Budget impact

The Government's superannuation reform package is estimated to improve the underlying cash balance by $2.8 billion over the forward estimates. The financial implications differ from those published in the 2016-17 Budget due to changes to the package announced on 15 September 2016 and variations arising from changes to the implementation of the package informed by consultation.

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Superannuation reforms at a glance

	BEFORE			AFTER (from 1 July 2017)		
	TAX	LIMIT	OTHER	TAX	LIMIT	OTHER
CONCESSIONAL (BEFORE-TAX) CONTRIBUTIONS Include: • compulsory Super Guarantee contributions; • voluntary salary sacrificed contributions; and • voluntary personal contributions where a tax deduction is claimed.	15% 30% if income and super >$300K refund tax if income ≤$37,000 Low Income Super Contribution	$30,000 p.a ($35,000 for people 49 and over)	Only the self-employed whose salary and/or wage is less than 10% of their income can make deductible contributions. People aged 65-74 can only make voluntary contributions if they are working.	15% 30% if income and super >$250K refund tax if income ≤$37,000 Low Income Super Tax Offset	$25,000 p.a for everyone and allowing catch-up contributions of unused caps from the prior 5 years for people with balances less than $500,000, from 1 July 2018.	**More people** are able to claim a tax deduction for super contributions to eligible super accounts up to the cap. People aged 65-74 can only make voluntary contributions if they are working.
NON-CONCESSIONAL (AFTER-TAX) CONTRIBUTIONS Include: • contributions from take home pay; • inheritances; • spouse contributions; • proceeds from sales of assets; and • contributions above the concession limit.	After-tax income no tax in fund	$180,000 p.a 3 yr bring forward for people under 65.	$1.4 million additional CGT cap for eligible small business owners . Tax offset for spouse contributions only where recipient income is less than $13,800 People can only make non-concessional contributions to their spouse if their spouse is less than 65 or 65-70 and working.	After-tax income no tax in fund	$100,000 p.a for people with balances less than $1.6m, with 3yr bring forward for people under 65.	$1.4 million additional CGT cap for eligible small business owners. Tax offset for spouse contributions where spouse income is less than $40,000 People can only make non-concessional contributions to their spouse if their spouse is less than 65 or 65-70 and working.
EARNINGS TAX ON ACCUMULATION ACCOUNTS	15% (10% on capital gains)			15% (10% on capital gains)		
EARNINGS TAX ON RETIREMENT PHASE ACCOUNTS	TAX FREE	no limit No limit on the size of retirement phase accounts	People who have reached preservation age but are under 65 and not retired **can access** a transitional super income stream (TRIS) with tax free earnings. Only income streams that pay a regular income are eligible for the earnings tax exemption.	TAX FREE	$1.6m transfer balance limit Excess balances can be held in an accumulation account.	People who have reached preservation age but are under 65 and not retired **can still access** a transitional super income stream (TRIS)but earnings on the amount supporting it will be taxed at 15%. Innovative new retirement income stream products will **become eligible** for the earnings tax exemption.
BENEFITS	TAX FREE	Minimum draw down requirements for retirement account based pensions.	People can elect to treat certain income streams (including TRIS) as lump sum payments to **reduce their tax liability**.	TAX FREE	Minimum draw down requirements for retirement account based pensions.	People will **no longer** be able to treat super income streams (including TRIS) as lump sum payments to reduce their tax.

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Impact of superannuation reforms on fund members

In 2017-18, 96% of superannuation account holders will not be affected. People aren't affected unless they:

MAKE CONCESSIONAL CONTRIBUTIONS	HAVE INCOME (INC. SUPER CONTRIBUTIONS)	HAVE A SUPERANNUATION BALANCE	MAKE OR PLAN TO MAKE
>$25,000 PER YEAR	**>$250,000** PER YEAR	**>$1.6m**	**>$300,000** NON-CONCESSIONAL CONTRIBUTIONS IN A 3 YEAR PERIOD
around **3.5 per cent**	around **1 per cent**	less than **1 per cent**	less than **1 per cent**

BENEFITS OF SUPERANNUATION REFORMS

Introduce the Low Income Superannuation Tax Offset		Introducing the Low Income Superannuation Tax Offset will increase the superannuation savings of **Around 3.1 million low income Australians, including around 1.9 million women**. The Low Income Superannuation Tax Offset will ensure that individuals with annual income up to $37,000 do not face adverse tax outcomes by making contributions to their superannuation.
Improving access to concessional contributions		More workers, regardless of their employment circumstances, will now have the flexibility to make concessional contributions up to the cap. This includes those who earn a small amount of their income in salary and wages, such as self-employed contractors or those without access to salary sacrifice. It is expected that this will improve the superannuation balances of **Around 800,000 working Australians.**
Catch-up concessional contributions		Individuals who take time out of the workforce and have lower superannuation balances will be provided with the flexibility to make catch-up superannuation contributions at times when they can afford to do so. It is expected that **Around 230,000 people, including those with interrupted work patterns** will utilise this flexibility to make additional superannuation contributions in 2019-20.
Extending the spouse tax offset		The income eligibility threshold to claim a tax offset for contributions made to a spouse will increase to $40,000 per annum. An extra **Around 5,000 people with low income partners** are expected to receive a tax offset for helping their spouse save for retirement.

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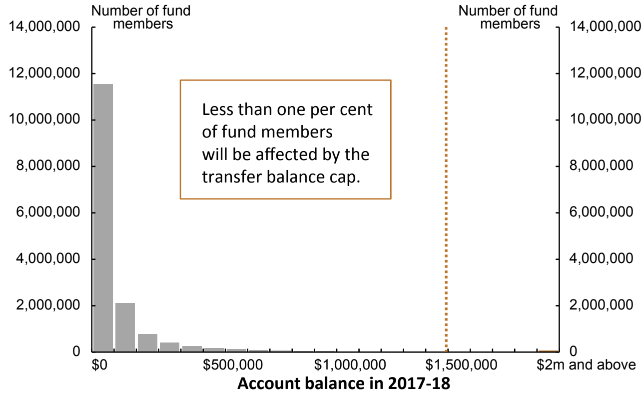
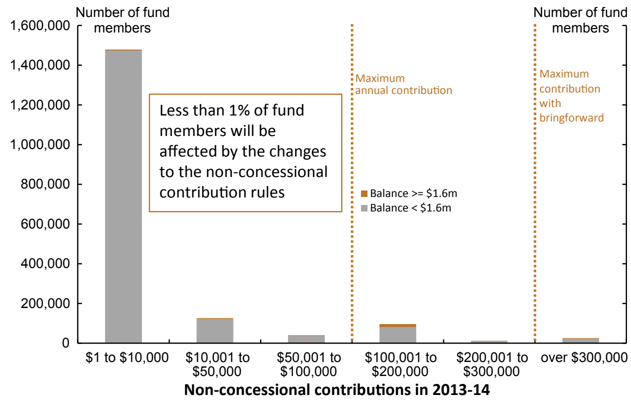
Impact of superannuation reforms on fund members

IMPACT OF SUSTAINABILITY MEASURES IN 2017-18

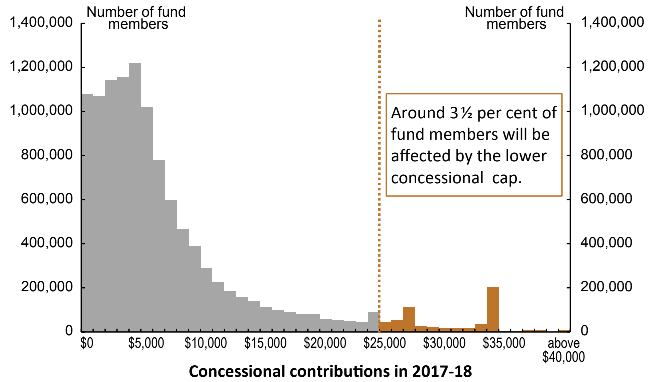
Introduce $1.6 million balance transfer cap



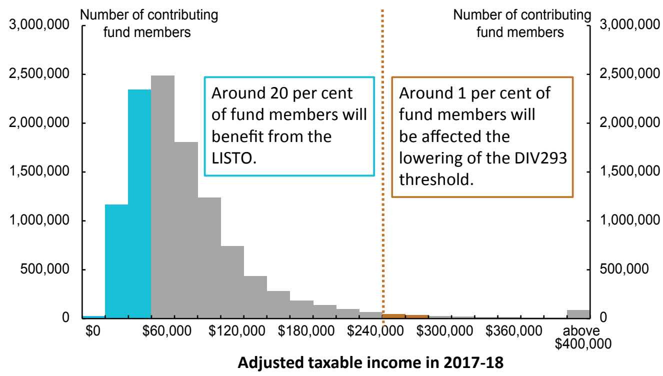
Lower annual non-concessional cap



Lower concessional contributions caps



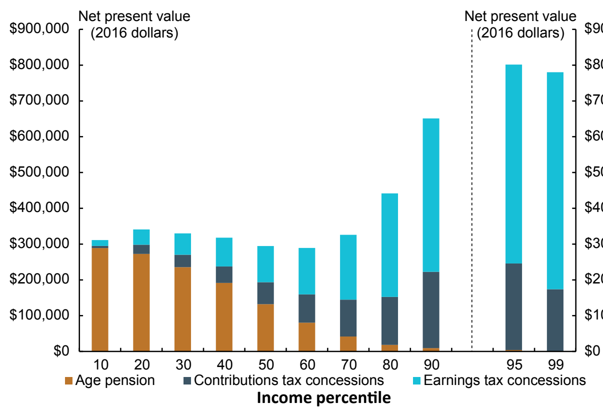
Reduce high income super tax threshold and introduce LISTO



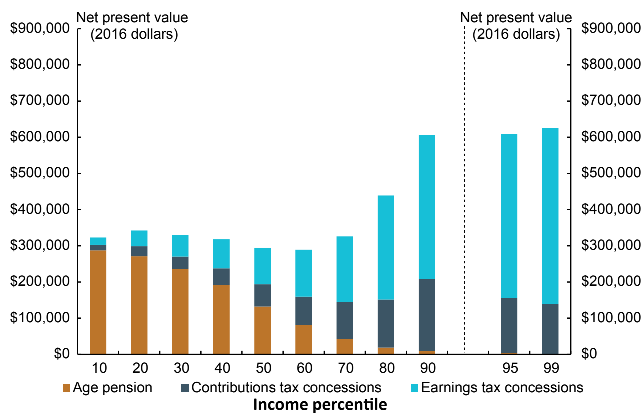
Source: Treasury calculations based on ATO tax return data

DISTRIBUTION OF LIFETIME TOTAL GOVERNMENT SUPPORT FOR RETIREMENT

Current Policy



New Policy



Source: Treasury calculations

Individuals are assumed to commence work in 2016 at age 30 and work until age 70, with a predicted life expectancy of 92. Accumulated superannuation benefits are invested in an account based pension and individuals are assumed to draw down their assets at the current age based minimum drawdown rates. The level of tax assistance and Age Pension entitlements are discounted by 5 per cent per annum to give a net present value in 2016 dollars. Annual incomes are calculated for each percentile based on the distribution of earners at each single year of age. Assumes no non-concessional contributions.