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Simplified superannuation – the final measures

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3 October 2006

Below we summarise the main measures to have resulted from the 2006/07 Federal Government proposals to simplify Australia's superannuation system. The final measures discussed below are the result of an extensive consultative effort by the Federal Government.

Benefits paid to individuals aged 60 and over	
Lump sum	From 1 July 2007, all lump sums paid from a taxed source will be tax free.
	No Reasonable Benefits Limit (RBL) will apply.
Pension	From 1 July 2007, all pensions paid from a taxed source will be tax free.
	No RBL will apply.
Reporting	Individuals are not to include lump sum or pension in tax return.
	Funds will not need to report payments to ATO.

Benefits paid to individuals aged less than 60	
Lump sum	Lump sum comprises: ▪ exempt component; and ▪ taxable component.
	Exempt component is tax free.
	Exempt component comprises: ▪ pre July 1983; ▪ CGT exempt; ▪ post June 1994 invalidity; ▪ concessional; and ▪ undeducted contribution.

	Regarding the pre-July 1983 component, ▪ it will be frozen as of 30 June 2007; and ▪ funds must complete calculations by 30 June 2008.
	Taxable component comprises: ▪ post June 1983; and ▪ non-qualifying.
	Taxable component is tax-free up-to low-rate-threshold.
	Regarding the low rate threshold: ▪ on 1 July 2007, it will be $140,000. ▪ it is indexed to AWOTE (Average Weekly Ordinary Time Earnings).
	Taxable component exceeding the low rate threshold is taxed: ▪ at 15% - if the recipient is aged between 55 to 60; and ▪ at 20% - if the recipient is aged under 55.
Pension	If pension begins before 1 July 07, the current arrangements remain.
	If pension begins on or after 1 July 07, the pre July 1983 component is included in the exempt component.
	15% rebate for pension recipients aged between 55y to 60y
Reporting	Individuals must report lump sum or pension in their tax return.
	After 30 June 2007, funds will not need to report payments to ATO.
Draw-down	From 1 July 2007, payments (lump sum or pension) will be apportioned into exempt and taxable components (reflecting the source's composition).

Death benefits	
Lump sum	Taxable component paid to non-dependant will be taxed at 15%
	Pension cannot be reverted nor paid to a non-dependant: non-dependants must be paid in a lump sum only.
Pension	Taxation of reversionary pension depends on ages of primary ("**P**") and reversionary beneficiaries ("**R**"): ▪ if P >= 60 when died, payment to R is tax-free; ▪ if P < 60 when died, payment to R is taxed at R's marginal tax rate (less deductible amount & pension rebate)
Dependant	If P dies before starting pension: ▪ benefits *may* be paid as pension to dependant; and ▪ benefits are taxed same as reversionary pension.

	If dependant is a child: ▪ benefits *may* be paid as pension; but ▪ when the child reaches 25, the balance *must* be paid as tax free lump sum (unless the child is permanently disabled).

Temporary residents	
	When eligible temporary resident visa holders permanently leave Australia, they can withdraw their super (subject to withholding tax).
	Withholding tax: ▪ taxed source: o exempt component 0% o taxable component 30% ▪ untaxed source 40%
	If permanently disabled, they are eligible for: ▪ the post June 94 invalidity component (on lump sums); and ▪ 15% pension offset (on pensions).
	From 1 July 2007, the self-employed have the permanent disability concessions.
	All withdrawals are tax-free for those aged over 60.
	Temporary disablement benefits (like salary continuance): ▪ are treated as replacement income (not retirement income); ▪ must be declare by individuals as income in their tax returns; and ▪ must be reported by funds (by issuing statements to individuals).

Payments	
Voluntary withdrawal	No changes to preservation ages (as currently legislated)
	An individual can voluntarily withdraw benefits if he/she is: ▪ over preservation age and is eligible; or ▪ over 65.
Compulsory withdrawal	From 10 May 2006, there is no compulsory withdrawal for: ▪ members over 65 who do not meet current work tests; or ▪ members over 75.
Pension rules	All pensions meeting new standards are taxed identically on payment.
	Earnings on underlying assets are tax-free.
New standards	Minimum amount must be paid at least annually.
	No maximum withdrawal limit (unless “transition to retirement”).

	Nothing left over once pension ceases.
	Transferable only upon death to dependant or as lump sum to deceased estate.
Transition to retirement	This is a condition of releasing payments.
	From 1 July 2007, annual withdrawals are limited to 10% of account balance (at the start of the year).
	Such payments are non-commutable.
Unwithdrawn benefits	No compulsory withdrawals.
	If the pensioner chooses not to be paid a pension, the fund will be taxed at 15% of the underlying assets' income.
Complying pension	These allow higher RBLs and/or provide for a pension assets test exemption, if the benefits are taken as a complying income stream.
	Individuals cannot commute their complying pensions.
Existing allocated pension	From 1 July 2007, individuals with an existing allocated pension can transfer to a new pension product.

Contribution rules	
Deductible contributions	From 1 July 2007, the maximum concessionary contribution is limited to $50,000 per year.
	The concessionary contribution will be taxed at 15% (contributions tax).
	Excess contribution will be taxed at 46.5% (that is, at the top marginal tax rate of 45%, plus the 1.5% Medicare levy).
	The individual will be liable to pay the extra tax on excess contributions.
	The maximum concessionary contribution limit is indexed to AWOTE.
	Those aged between 65 and 74 must work for at least 40 hours in 30 days to rely on this concession.
Funded defined benefit scheme	Scheme members can rely on the deductible contributions concession.
	The concept of "notional taxable contribution" (as yet undefined) will be used to compute contribution amounts.
	Members (as of 5 September 2006) with notional taxable contributions exceeding the maximum concessionary limit being *deemed* to be within limit (unless their scheme rules change to increase benefits).
Contribution deductions	Employers can claim full deduction for contributions made on behalf of employees aged under 75.

	From 1 July 2007, a self-employed individual (aged under 75) can claim employer contribution deductions.
	An individual's contribution deduction is based on their employment-based assessable income (that is, employment income and fringe benefits)
	An individual (who claims a contribution deduction) must inform their fund.
	Between the financial years 2007-2008 and 2011-2012, the maximum concessionary contribution limit will be temporarily increased to $100,000 per year for individuals aged 50 and over (during that time period).
Undeducted contributions	Contributions are capped at $150,000 per year (indexed to AWOTE).
	Between 10 May 2006 and 30 June 2007, the transitional cap is $1 million.
	The cap covers third-party contributions (not Government co-contributions).
	Individuals aged under 65 can bring forward two years of contributions (eg, contribute $450,000 in one year if make no contributions in the next two).
	Funds prohibited from accepting more than the maximum allowable post-tax contributions in one year (eg, $450,000 from an individual under 65).
	Funds must report every contribution to ATO.
	From 1 July 2007, individuals aged over 65 must meet the work test (in order to contribute $150,000).
	Individuals aged over 75 cannot contribute.
Transfers from overseas funds	If an individual receives benefits after more than 6 months' residency, then, the amount must be included in the individual's taxable income.
	If the benefits are transferred into an Australian fund, then, the amount forms part of the individual's concessionary contributions.
Transfers from untaxed fund	Subject to contributions tax.
Exceptions to cap limit	Asset disposal proceeds that qualify for small business CGT exemption up to lifetime limit of $1 million (indexed)
	Asset disposal proceeds of pre-CGT assets that would otherwise have qualified for small business CGT exemption
	Asset disposal proceeds where owner is permanently disabled even if owned for less than 15 (a condition for the small business CGT exemption)
	Personal injury settlements if permanent disability resulted from injury.

Self-employed

Government co-contribution	From 1 July 2007, a self-employed individual can be part of the Government's co-contribution scheme.
	An individual's income is their assessable income (including fringe benefits), less business expenses.

Age pension	
Pension assets test	From 20 September 2007, the taper rate for the pension assets test will be halved. A pensioner will lose $1.50 in payments per fortnight for each $1,000 exceeding the threshold.
	Pensions affected are: ▪ age and service pensions; ▪ disability support pension; ▪ carer pension; ▪ wife pension; ▪ widow B pension; and ▪ bereavement allowance.
	Complying income streams purchased after 20 September 2007 will not be eligible for the 50% assets test exemption (unlike those purchased before this date).
Pension income test	Income streams of over 5 are assessed on gross annual income less a small capital return allowance.
	Other income streams are assessed under the social security deeming rules.

Employer ETPs	
General	Includes amounts paid within one year of termination.
	Excludes the following payments: ▪ bona fide redundancy; ▪ unused leave; and ▪ approved early retirement scheme.
	Cannot be rolled over into superannuation fund.
Exempt component	This consists of: ▪ the post-June 1994 invalidity component; and ▪ the pre-July 1983 component.
	The exempt component is tax-free.
Taxable component	This consists of the post-June 1983 component.
	The maximum concessionary limit is $140,000 (indexed).

	The maximum concessionary limit is taxed as follows: ▪ individuals aged 55y and over - 15%; and ▪ individuals under 55y - 30%.
	Amounts exceeding the maximum concessionary limit are taxed at the top marginal rate plus Medicare levy (46.5%).
Transitional arrangements	Applies to employment contracts existing on 9 May 2006 where payment is received before 1 July 2012.
	The maximum concessionary limit is $1 million.
	Payments up to $140,000 are taxed as follows: ▪ individuals aged 55 and over - 15%; ▪ individuals aged under 55 – 30%;
	Payments between $140,000 and $1 million are taxed at 30%.
	Payments exceeding $1 million are taxed at the top marginal rate, plus Medicare levy (46.5%).

Administration	
Non-provision of TFN	The exempt component will not be taxed.
	The fund must reject any post-tax contribution.
	Contributions (exceeding $1,000) to an account opened before 1 July 2007 will be taxed at the top marginal rate plus Medicare levy (46.5%).
	Contributions to an account opened after 30 June 2007 will be taxed at the top marginal rate plus Medicare levy (46.5%).
	Tax is refunded if the TFN is provided within 4 years of a fund's assessment.
Employers' duties	Obtain TFN from employees for employment and superannuation purposes.
	Provide super fund with employees' TFN within 14 days of opening account.
Inter-fund transfers	Funds must complete inter-fund transfers within 30 days.
	A uniform form will be used for such requests.
Lost members register	Accounts with balances of under $200 will be paid tax-free.
	Web-based tool for members to locate lost accounts.
	Web-based tool for members to consolidate existing accounts.
	The Government will take efforts to locate lost members.
Funds' supervision	The ATO will receive additional funding for improved supervision.
	Funds must complete a single, simple form (that combines the annual regulatory return, income tax return and member contribution statement).
	Funds will be penalized for late returns and false statements.
	From 2007-2008, the annual supervisory levy is to be increased to $150.

	The role and duties of independent auditors will be clarified.
	Fringe benefits tax will be removed from *in specie* employer contributions.

Untaxed schemes	
Lump sum	The upper threshold limit is $1 million (indexed to AWOTE).
	The lower threshold limit is $140,000.
	Individuals aged over 60 are taxed as follows: ▪ 15% for amounts up to the limit; and ▪ the top marginal tax rate for amounts exceeding the upper threshold.
	Individuals aged between 55 and 59 are taxed as follows: ▪ 15% for amounts below the lower threshold; ▪ 30% for amounts between the lower and upper thresholds; and ▪ the top marginal tax rate for amounts exceeding the upper threshold.
	Individuals aged under 55 are taxed as follows: ▪ 30% for amounts up to the upper threshold; and ▪ the top marginal tax rate for amounts exceeding the upper threshold.
Pension	Individuals aged over 60 are taxed at marginal tax rates with a 10% offset.
	Individuals aged under 60 are taxed at marginal tax rates.
Administration	Individuals must report benefits in their tax returns.
	After 30 June 2007, funds will not need to report payments to the ATO.
	The pre July 1983 component is tax-exempt.
Death benefits	All payments to dependants are tax-free.
	Non-dependants may receive lump-sums but not pensions.
	Beneficiaries can avail of the 10% offset if: ▪ the primary beneficiary was aged 60 or more when he/she died; or ▪ the reversionary beneficiary is aged 60 or more.
	Post June 1983 lump sum payments to non-dependants are taxed as follows: ▪ a rate of 30% for amounts of up to $1 million; and ▪ the highest marginal tax rate (45%) for amounts exceeding $1 million.
Rollovers to taxed scheme	The transferring fund must withhold tax at the top marginal tax rate (45%) on amounts above $1 million.
	The first $1 million is a taxable contribution for the receiving fund.
	Amounts exceeding $1 million are in the receiving fund's exempt component.