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Budget 2016 – key technical and advice implications

Colonial First State says the 2016 Budget contains "some of the biggest changes to the superannuation system since July 1, 2007." On the issue of changes to the concessional cap, CFS's technical analysis says it will reduce to $25,000 per annum for everyone regardless of age from July 1, 2017.

"Currently the concessional contributions cap is $30,000 for clients under age 50 and $35,000 for ages 50 and over," it says.

"From July 1, 2017, the Government will include notional (estimated) and actual employer contributions in the concessional contributions cap for members of unfunded, defined benefit schemes and constitutionally protected funds.

"For individuals who were members of a funded defined benefit scheme as at 12 May 2009, the existing 'grandfathering' arrangements will continue."

It says the reduced concessional contributions cap of $25,000 does not apply until 2017-18. Clients should consider taking advantage of the current higher concessional cap of $30,000 (under age 50) and $35,000 (age 50 and over) in the 2015-16 and 2016-17 financial years.

CFS says clients should review salary sacrifice arrangements and personal deductible super contributions to ensure they comply with the reduced concessional cap. Clients may need to drip-feed contributions over a longer period in order to meet retirement goals as a result of the reduced concessional cap.

Budget 2016 – reaction and commentary

The CFS analysis says the ability to salary sacrifice will be restricted, as superannuation guarantees may take up a large portion of the concessional cap from July 1, 2017. The inclusion of notional and actual employer contributions in the concessional contribution cap for members of unfunded defined benefit schemes and constitutionally protected funds (CPF) will remove a significant tax advantage for these individuals. Currently contributions made to a CPF are exempt from the concessional cap. CPFs are untaxed super funds that do not pay income tax on contributions or earnings they receive. Read full CFS analysis.

IOOF's Technical Services team says the Budget superannuation changes are "quite comprehensive and financial planners will have a lot of work to do with clients over the next year getting financial plans in line with the changes".

"One super change that will cause some concern will be the $1.6m transfer balance cap, which will effectively limit the amount of super held in the tax exempt pension phase," it says.

It says Transition to Retirement (TTR) pensions have been hit, but the strategy was not removed entirely. It says that the tax exemption on earnings in TTR pensions has been removed, which will effectively turn TTR pensions into accumulation accounts from which a drawdown is made.

The changes to concessional contributions are a mixed bag, IOOF says.

“On the one hand the concessional contributions cap drops to $25,000, however unused cap amounts can be carried forward for up to five years where account balances are under $500,000. This will go some way to helping people, particularly women, catch up on super contributions.” Read full IOOF analysis.

Clear messages on super

Consulting firm **Strategy Steps** says the two clear messages from this year’s Budget changes to superannuation are that: the government believes wealthier people are using super to accumulate more than they need for retirement; and that more flexibility is needed for people to choose when and how they make contributions to super.

“The Government is attempting to reduce the cost of tax concessions to super by limiting the amount that can be contributed as well as the tax exemptions in retirement,” its technical analysis says.

“Clients with lower balances and/or lower levels of income will gain greater flexibility. Clients with higher balances and/or incomes may choose to seek alternative non-superannuation investment options that also provide tax advantages.” Read full Strategy Steps analysis.

Another consulting firm, **EY**, says now that the Government has announced the “objective” of the superannuation system, the Budget includes changes to tax concessions designed to support this.

“In particular, the changes will accommodate new deferred annuity products and will re-position a number of foundational elements to strengthen the system for the future,” it says.

“Despite being aligned to the defined superannuation system purpose, these changes will be a further administrative burden that may challenge short-term efficiency objectives of the system, funds and service providers and associated government agencies.” Read full EY analysis.

Perpetual Private’s strategic advice team said advisers should remember that the Budget proposals have not yet been legislated, and it recommends that advisers take no specific action with clients “until the Government provides greater detail in any relevant draft legislation”. It said the Budget proposes “a three-tiered approach to ensuring an equitable and sustainable future for all Australians by: furthering jobs growth; providing an environment for small business to innovate and grow; as well as reducing overall long term government debt”. Read full Perpetual analysis.