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IOOF analysis: Budget super reforms

Today the Treasurer has announced changes to the 2016 Budget super reforms. Here, IOOF Senior Technical Services Manager, Martin Breckon, explains the changes and their potential impacts.

The changes are:

- The $500,000 lifetime cap for non-concessional contributions (NCCs) will be replaced with an annual $100,000 non-concessional contributions cap. The current NCC cap carry forward provisions will continue for those under age 65, allowing members to contribute up to $300,000 of NCCs over a 3 year period. Those with accumulation balances over $1.6 million will no longer be able to make non-concessional contributions.
- The measures above are intended to be effective 1 July 2017.
- The proposed carry forward of unused concessional contributions cap amounts will remain, however commencement will be delayed until 1 July 2018.
- The work test for those aged 65 to 75 will remain.

The following proposed Budget reforms will remain:

- Removing the less than 10 per cent employment income test for personal superannuation contribution deductions.
- The $1.6 million transfer cap for benefits transferred to pension phase.
- Reducing the annual income threshold for Division 293 tax on concessional contributions to $250,000.
- Reducing the concessional contributions cap to $25,000 pa and allowing a carry forward of unused cap amounts for up to 5 years where account balances are under $500,000.
- Income on assets backing transition to retirement income streams will be taxed at 15 per cent.
- The increase to the spouse income threshold for claiming a tax offset for spouse contributions.
- Continuing the Low Income Superannuation Tax Offset.

Changes to the non-concessional contributions cap

The proposed $500,000 lifetime cap on non-concessional contributions will be removed, including the retrospective look back to contributions made since 2007. This proposal will be replaced with a simple change that reduces the current $180,000 annual cap on non-concessional contributions to $100,000 pa. Members will be able to bring forward the next 2 years of the cap and contribute up to $300,000 over 3 years. As currently applies, the 'bring forward' provisions will not apply to those aged 65 or over.

Additionally those with accumulation balances over $1.6 million will not be able to make further non-concessional contributions. The $1.6 million threshold will be measured on 30 June of the previous financial year. Where account balances are close to $1.6 million, the 'bring forward' provisions may be restricted.

The $100,000 non-concessional contributions cap will be fixed at 4 times the concessional contributions cap and increases will be linked to changes in the concessional contributions cap.

Transitional measures will apply to a member who has not fully used their NCC bring forward amount before 1 July 2017. The remaining bring forward amount will be reassessed on 1 July 2017 to reflect the new lower annual caps.

The question here becomes whether the ALP Opposition will support this change and pass the legislation through the Senate. The ALP's concern with the $500,000 lifetime cap was that it was retrospective and this removes the retrospective element to the reforms. The change also links non-concessional contributions to the $1.6 million transfer cap, which the ALP supports.

Retaining the work test for contributions for those over age 65
The Government will continue to apply the work test for contributions made between age 65 and turning age 75 (other than Super Guarantee contributions).

The Government has decided not to go through with the Budget announcement to remove this work test largely for revenue reasons. However where a member over age 65 meets the work test, personal contributions will be tax deductible (and subject to the $25,000 concessional contributions cap).

The ALP had indicated they would not support removing the work test on revenue grounds. They also indicated they would not support widening access to tax deductions for personal super contributions, however the Government is continuing with that reform.

Deferring the start of catch up concessional contributions
Under the 2016 Budget reforms the concessional contributions cap would drop to $25,000 from 1 July 2017. However members who did not use all their cap could carry forward the excess for up to five years if their account balance was under $500,000. This will remain, however the commencement will be delayed until 1 July 2018. This means that the 'catch up' contributions will be allowed in the 2019/2020 year. The delay is for revenue purposes.

Conclusion
It is understood the changes have been approved by the Coalition party room. The next

step will be to get the changes into legislation and through the fractious Senate. The Government is likely to need the Opposition to support the changes.