CENTREPOINT ALLIANCE

‘The good, the bad, and the ugly’ of the most far-reaching superannuation reforms since the 2006 Budget

By Peter Kelly

Some of the most far-reaching superannuation reforms since the 2006 Budget were introduced to the House of Representatives on 9 November. On 23 November 2016, some six months later, the Bill was passed by both Houses of Parliament, and now awaits Royal Assent – which should be a mere formality.

The changes that will have the most significant negative impact will affect the more affluent members of our community – those who have the capacity to accumulate significant amounts in super, and make large contributions.

In saying that, there are going to be very few Australians who will be adversely affected by even the worst of the changes. For the small group who are adversely affected, some careful planning and good financial advice should be sufficient to mitigate the worst of the undesirable outcomes.

Just to recap, the more significant changes that have now passed into law include:

1. The introduction of a limit (starting at $1.6m) on the total amount of superannuation benefits that can be transferred to a superannuation pension. Superannuation balances that exceed $1.6m will either have to be removed from the superannuation system (where permitted) or be retained in a superannuation accumulation account. The investment earnings of accumulation accounts are taxed at a rate of 15%, as opposed to 0% for investments held in the retirement (or pension) phase.
2. A reduction in the concessional contribution cap from the current $30,000 per annum ($35,000 for individuals aged 50 or older), to $25,000.
3. The ability to carry forward any unused portion of the concessional contribution cap for up to five years, where an individual has less than $500,000 in superannuation. However, this measure will not commence until 1 July 2018.
4. The limitation of making non-concessional contributions to people with less than $1.6m in superannuation. Furthermore, non-concessional contributions will be limited to $100,000 per annum (currently $180,000 per annum) however, the ability to bring forward up to three year’s contributions will be retained for people under 65.
5. Changes to the taxation of pre-retirement or ‘transition to retirement’ pensions. Currently the income earned by a super fund on the investments that are supporting transition to retirement pensions is exempt from tax. From 1 July 2017, such pensions will have their income taxed at 15%, as is the case with investments held in accumulation accounts.

There were a number of other changes also passed through to the legislative process, with some of those being very favourable. However, they will often not require a lot of detailed planning to take advantages of the opportunities that have been created.

Despite the constant meddling, superannuation remains a viable retirement savings vehicle. More than ever, we need to take a long-term view of super and to implement strategies that will enable us to maximise contributions at the earliest opportunity.

And just in case you were wondering, individuals will still be able to contribute up to $125,000 to super each year – which is way beyond the savings capacity of most of us.

The information provided in this article has been provided as general advice only. We have not considered your financial circumstances, needs or objectives and you should seek the assistance of your Adviser before you make any decision regarding any products mentioned in this communication. Whilst all care has been taken in the preparation of this material, no warranty is given in respect of the information provided and accordingly neither CAF Group nor its related entities, employees or agents shall be liable on any ground whatsoever with respect to decisions or actions taken as a result of you acting upon such information.

Centrepoint Alliance Limited
ABN 72 052 507 507
Level 9, 10 Bridge St, Sydney NSW 2000
+61 2 9921 6900 | centrepointalliance.com.au