

Australian Government – Better Super Changes

The 2006-07 Australian Budget included a proposal to simplify and streamline superannuation and associated taxation. The proposals improve the incentives to work and save, and introduce greater flexibility in how superannuation can be drawn down in retirement.

Legislation to implement the proposals was passed through Australian Parliament on 27 February 2007. These changes will have an immense impact on the future of superannuation and retirement incomes in Australia.

Some of the major changes and their effect on NTGPASS members are discussed below:

When reading the following, please be aware of the new superannuation terminology used as part of the new taxation system introduced. Please contact the office if you are unsure or require clarification on any of the new rules or terminology, on (08) 8901 4200.

Non-Concessional Contribution Caps *That is, personal (after-tax) contributions*

From 1 July 2007, an annual cap of \$150 000 will apply to non-concessional contributions. The cap operates on a 'use it or lose it' basis, that is, you cannot credit any unused amounts to a future year.

If you are under 65 years of age, you will be able to bring forward two years of contributions, enabling \$450 000 to be contributed in one year, with no further contributions in the next two years.

If you are aged 65 to 74 you will need to satisfy the work test to make non-concessional contributions to your super fund. That is, you must have worked at least 40 hours in a period of 30 consecutive days in the same financial year you wish to make non-concessional contributions. The bring forward arrangements allowing \$450 000 to be contributed in one year are NOT available to those aged 65 to 74.

If you are 75 years or over you are not eligible to make non-concessional contributions to superannuation funds.

Any non-concessional contributions that exceed the caps will be subject to additional tax of 46.5%.

Transitional arrangements allow you to make up to \$1 million of non-concessional contributions between 10 May 2006 and 30 June 2007.

Prior to the announcement of the Australian Budget, there was no limit on the amount of after-tax contributions you could make to a superannuation fund.

Concessional Contributions Cap

That is, employer and salary sacrifice (pre-tax) contributions

From 1 July 2007, an annual cap of \$50 000 will apply to concessional contributions. This means the removal of the complex aged based limits that have applied on employer and salary sacrifice contributions.

If you are aged 50 years and over, transitional arrangements allow you to make concessional contributions up to \$100 000 each financial year from 1 July 2007 until 30 June 2012. If you turn 50 during this period you will be able to take advantage of the transitional arrangements from the financial year in which you turn 50.

Amounts up to the caps are concessionally taxed at 15 per cent. Any amounts contributed above the caps will be subject to an additional tax of 31.5% and the contribution will then be counted against your non-concessional contribution cap.

If you are an active member of NTGPASS, your Territory-financed (employer) component is not counted toward the concessional contribution caps. This part of your benefit is paid from an untaxed source on cessation of your employment with the Territory public sector and is exempt from the annual caps.

The \$50 000 cap will be indexed to *Average Weekly Ordinary Time Earnings*, but will only increase in increments of \$5000. The \$100 000 cap in the transitional arrangements will not be indexed.

Tax File Numbers (TFN)

From 1 July 2007, if a superannuation fund does not have your TFN:

- the fund cannot accept non-concessional (after-tax) contributions; and
- the fund is required to deduct tax of 46.5% on concessional (pre-tax) contributions which exceed \$1000 in a year (that is, 15% standard concessional tax plus a no-TFN tax of 31.5%). The \$1000 threshold will not apply for accounts opened on or after 1 July 2007. Superannuation funds will apply the higher tax at 30 June each year.

If you are subject to the no-TFN contributions tax you can be reimbursed if you provide your TFN to the superannuation fund that deducted the tax within four years of the liability arising.

Prior to 1 July 2007 there was no penalty if you did not provide your TFN to your superannuation fund but if you didn't the fund had to withhold tax at the top marginal tax rate when your superannuation benefit was paid to you.

Compulsory Cashing of Benefits

Abolished

From 10 May 2006, the compulsory cashing of superannuation was removed.

Previously, you could only keep your money in superannuation after age 65 if you were gainfully employed (i.e. working at least 10 hours per week) and you were required to claim your superannuation at age 75 regardless of your employment status.

The removal of cashing restrictions means that you can leave your money in NTGPASS indefinitely.

Reasonable Benefit Limits (RBL)

Abolished

From 1 July 2007, the RBLs applying on lump sums and pensions will be removed.

Currently, superannuation tax concessions are limited to a person's RBL which is \$678 149 for a lump sum and \$1 356 291 for a pension.

Taxation of Superannuation Benefits

From 1 July 2007:

- Tax will be abolished on lump sums and pensions paid to people aged 60 and over from a taxed fund (where employer and employee contributions and investment earnings have already been taxed, for example your NTGPASS accumulation account). Currently lump sums are taxed at varying rates depending on how the benefit is taken and pensions are taxed at marginal tax rates with a 15% tax offset for those over 55.
- Tax will continue to be levied on lump sums and pensions paid to people aged 60 and over from an untaxed source (unfunded public sector schemes where employer contributions and investment earnings have not previously been taxed such as your NTGPASS Territory-financed benefit). Lump sums (up to \$1 million) paid to those aged 60 and over will be taxed at a single reduced rate of 15% and pensions will continue to be taxed at marginal rates but a 10% tax offset will be introduced.
- Preservation rules remain unchanged meaning those able to access superannuation benefits before age 60 (ie people born prior to 1 July 1964) will continue to be able to do so. The tax on lump sums paid to those aged 59 and under will be simplified and will be lower in some cases. Pension payments to this group will continue to be taxed under current arrangements but when the person turns 60 their pension will be subject to the above mentioned concessional tax rates.

Effect of Taxation on NTGPASS Benefits

The NTGPASS is a 'split benefit' lump sum scheme and pays benefits which generally comprise two components, a member accumulation component and a Territory-financed component.

The member accumulation component comprises the member's contributions and rollovers accumulated with interest. This part of the benefit is paid from a taxed source as monies in the account have previously been taxed. If you are aged 60 or over when you claim your NTGPASS benefit, the changes mean you will not pay tax on the benefit paid from your member accumulation account.

The Territory-financed component is a lump sum benefit defined by a formula that is paid by the Territory when a member ceases NT public sector employment. This part of the benefit is paid from an untaxed source. If you are aged 60 or over when you claim your NTGPASS benefit, the changes mean your Territory-financed benefit will only be taxed at 15 per cent (up to \$1 million).

The following table illustrates the effect the budget changes have on the taxation of lump sums from NTGPASS.

Component	Taxation prior 1 July 2007	Taxation from 1 July 2007
Age: Less than 55		
<i>Non-Concessional</i>		
Undeducted contributions	Exempt	Exempt
Pre July 1983	5% taxed at marginal tax rate	Exempt
<i>Concessional</i>		
Post June 1983 taxed	20% to RBL 38% on excess over RBL	20%
Post June 1983 untaxed	30% to RBL Excess over RBL taxed at top marginal tax rate	30% up to \$1 million Excess over \$1 million taxed at top marginal tax rate
Age: 55-59		
<i>Non-Concessional</i>		
Undeducted contributions	Exempt	Exempt
Pre July 1983	5% taxed at marginal tax rate	Exempt
<i>Concessional</i>		
Post June 1983 taxed	0% to low tax threshold 15% over low tax threshold up to RBL 38% on excess over RBL	0% to low tax threshold 15% on excess over low tax threshold
Post June 1983 untaxed	15% to low tax threshold 30% over LTT up to RBL Excess over RBL taxed at top marginal tax rate	15% to low tax threshold 30% on excess up to \$1 million Excess over \$1 million taxed at top marginal tax rate
Age: 60 and over		
<i>Non-Concessional</i>		
Undeducted contributions	Exempt	Exempt
Pre July 1983	5% taxed at marginal tax rate	Exempt
<i>Concessional</i>		
Post June 1983 taxed	0% to low tax threshold 15% over low tax threshold up to RBL 38% on excess over RBL	Tax Free
Post June 1983 untaxed	15% to low tax threshold 30% over low tax threshold up to RBL excess over RBL taxed at top marginal tax rate	15% up to \$1 million Excess above \$1 million taxed at top marginal tax rate

Note: 2006-07 low tax threshold – \$135 590; top marginal tax rate – 45%; reasonable benefit limit – lump sum \$678 149 and pensions \$1 356 291; 2007-08 low tax threshold – \$140 000.

Tax rates provided do not include Medicare Levy (1.5%).

Other Superannuation Proposals

Below are other superannuation proposals included in the Australian Government's Better Super changes. They are unlikely to have an immediate impact on the majority of NTGPASS members but it is important to be aware of these changes.

Effective from 1 July 2007:

- Pension products will be simplified. For example, allocated pensions will still require a minimum annual amount to be paid but no maximum limits will apply and investment earnings on pension assets will continue to be tax exempt.
- Self-employed people will be able to claim a full deduction on their contributions and will also be eligible for Australian Government co-contribution on their post tax contributions.
- The ability to make deductible superannuation contributions will be extended up to age 75, provided persons aged 65 and over meet work test requirements. Deductible contributions includes salary sacrifice and superannuation guarantee.

From 20 September 2007:

- The age pension assets test taper rate will be halved – retirees will lose \$1.50 rather than \$3.00 in age pension for every \$1000 of assets above the assets test threshold. A single retiree with a house will not lose their age pension entitlement until their assets reach around \$515 500 (previously \$338 500) and a couple with a house \$818 000 (previously \$640 500).
- The 50% asset test exemption for complying pensions will be abolished to reduce the scope for wealthier individuals to access the age pension. Currently complying pensions purchased prior to 20 September 2004 are excluded from the test and pensions purchased after that date are eligible for a 50% exemption.