

# Better Super Changes

The 2006-07 Commonwealth Government 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 have had an immense impact on the nature 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 Caps *Personal (after-tax) contributions*

Since 1 July 2007, an annual cap of \$150 000 applies 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%.

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 Contribution Caps *Employer and salary sacrifice (pre-tax) contributions*

Since 1 July 2007 an annual cap of \$50 000 applies to concessional contributions. This means the removal of the complex aged based limits that were previously applied on employer and salary sacrifice contributions.

If you are aged 50 years and over, transitional arrangements allow you to make concessional contributions of 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.

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.

If you are an active member of NTGPASS, your Territory-financed (employer) contributions are not paid to you until you resign. However, a notional amount is assessed against the concessional contributions cap each financial year. The amount is calculated as a percentage of your contribution salary and is determined by your NTGPASS contribution rate.

NTGPASS member contribution	Notional employer contribution
2%	2%
3%	4%
4%	5%
5%	7%
6%	8%

**Example** – If your contribution salary is \$60 000 and you contribute 6% to NTGPASS, your notional employer contribution is \$4 800 (8% of \$60 000).

## Tax File Numbers (TFN)

Since 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 \$1 000 in a year (that is, 15% standard concessional tax plus a no-TFN tax of 31.5%). The \$1 000 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 on lump sums and pensions no longer apply.

## Taxation of Superannuation Benefits

From 1 July 2007:

- Tax was 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, e.g. your NTGPASS accumulation account).
- Tax continues 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 \$1 045 000) 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 \$1 045 000).

Component	Tax Applicable
<b>Tax-free component</b>	Exempt
<b>Taxable component</b>	
<b>Taxed element</b>	
Under age 55	20%
Age 55-59	0% to low rate cap* 15% over low rate cap*
Over age 60	Tax free
<b>Untaxed element</b>	
Under age 55	30% up to \$1 045 000 45% over \$1 045 000
Age 55-59	15% up to low rate cap* 30% over low rate cap* up to \$1 045 000 Top marginal tax rate on excess
Over age 60	15% up to \$1 045 000 Top marginal tax rate on excess

\*low rate cap for 2008-09 is \$145 000  
tax rates do not include Medicare levy of 1.5%