

[Simplified super]

how does it affect you ?



The treasurer announced in Budget 2006 the proposed plan to change the superannuation system in Australia. He announced that it would be 'the most significant change to Australia's superannuation system in decades'.

The proposed plan has now been finalised and are awaiting to be passed in Parliament.

The key changes of the proposed plan are:

- Super benefits received by people aged 60 and over will be tax free
- Reasonable Benefit Limits will be abolished
- Employer Eligible Termination Payments must be taken as cash
- Limits on concessional contributions (deductible contributions) will be simplified
- Limits on voluntary contributions (undeducted contributions)
- Greater flexibility as to how and when to draw down super - no more compulsory cashing of super
- From 20 September 2007, halving the current pension taper rate to \$1.50



Simplified super – how will it affect you?

The table shows how the current rules will be changed under the proposed plan. The proposed plan appears to remove the complexities surrounding the superannuation system, making it easier to understand.

	Before 1 July 2007	Post 1 July 2007						
Contribution rules	<p>Deductible (before tax) contributions</p> <ul style="list-style-type: none"> age-based limit on deductibility for employers <table> <tr> <td>age up to 34</td> <td>\$15,260</td> </tr> <tr> <td>age 35 - 49</td> <td>\$42,385</td> </tr> <tr> <td>age 50 +</td> <td>\$105,113</td> </tr> </table> <p>Undeductible (after tax) contributions</p> <ul style="list-style-type: none"> no limit until 9 May 2006 \$1 million limit for the transitional period of 10 May 2006 to 30 June 2007 	age up to 34	\$15,260	age 35 - 49	\$42,385	age 50 +	\$105,113	<p>Deductible (before tax) contributions</p> <ul style="list-style-type: none"> \$50,000 cap per person per annum cap will be \$100,000 for those 50 year of age and over until 2011-12 top marginal tax plus Medicare levy apply to amounts over the cap no limit on deductibility for employers for contributions up to 75 <p>Undeductible (after tax) contributions</p> <ul style="list-style-type: none"> \$150,000 cap per person per annum may bring forward 2 years of contributions (i.e. up to \$450,000) top marginal tax plus Medicare levy apply to amounts over the cap once reach age of 65, must satisfy the work test for eligibility; prohibited once reach age of 75
age up to 34	\$15,260							
age 35 - 49	\$42,385							
age 50 +	\$105,113							
Contribution incentives for self-employed	<ul style="list-style-type: none"> first \$5,000 plus 75 per cent of balance up to age-based limit 	<ul style="list-style-type: none"> no limit on deductibility for self-employed up to age 75 eligible for Government co-contribution 						
Taxation of contribution	<p>Contributions taxed at 15 per cent</p> <p>Tax paid by superfund</p>	<p>Contributions within caps</p> <ul style="list-style-type: none"> contributions taxed at 15 per cent tax paid by superfund <p>Contributions exceeding caps</p> <ul style="list-style-type: none"> contributions taxed at top marginal tax plus Medicare levy (currently 46.5 per cent) tax paid by individual, may ask their superfund to release monies to pay the tax 						



Simplified superannuation

	Before 1 July 2007	Post 1 July 2007
Access to benefits	<p>Preservation rules prevent you from withdrawing your super benefits before reaching retirement age</p> <p>Forced to draw down once reach a certain age</p> <ul style="list-style-type: none"> once age 65 - must draw benefits, unless working at least 240 hours per year once age 75 - must draw benefits 	<p>Same preservation rules apply</p> <p>No compulsory draw down of superannuation benefits</p>
Payment rules	<p>Lump sum</p> <ul style="list-style-type: none"> schedule of rates depending on age, service period and RBL <p>Pension</p> <ul style="list-style-type: none"> complex set of rules with tax free and taxable portion with offset taxed as income at marginal rates, with 15 per cent offset if within RBL and over age 55 tax free portion for portfolio funded by undeducted contributions <p>Reasonable Benefit Limits (RBL) is a lifetime limit to the amount of concessionally tax super benefits you can receive. The lump sum RBL for 2006/07 is \$678,149. The pension RBL for 2006/07 is \$1,356,291</p>	<p>From taxed superfund*</p> <ul style="list-style-type: none"> lump sum or pension paid to a person aged 60 or above is tax free if aged under 60, broadly similar to existing tax rules <p>RBL abolished</p> <p>* funds that paid tax on contributions and earnings. A self managed super fund that is a complying fund is a taxed super fund</p>
Employment Termination Payments	<p>If cashed, subject to RBL and tax at various rates</p> <p>Can be rolled into superannuation, taxed in the fund at up to 15 per cent</p>	<p>Must be cashed; cannot be rolled into superannuation</p> <p>Pre-July 1983 and post-June 1994 invalidity components tax free</p> <p>Other components up to a maximum of \$140,000</p> <ul style="list-style-type: none"> taxed at 15 per cent for those aged preservation age and over taxed at 30per cent for those under preservation age <p>Excess amounts taxed at the top marginal tax rate plus Medicare levy (currently 46.5 per cent)</p>



Disclaimer

This paper is based on our interpretation of the proposal and other information available at the time. While this is believed to be correct, we can give no guarantee in this respect.

The information contained in this paper is factual and does not consider your personal circumstances. It is not financial advice.

Before proceeding, you should discuss your personal circumstances with your professional adviser to ensure that it suits your personal circumstances.

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