AWARD ACCOUNTING FOR BUSINESS SUCCESS

Proposed superannuation changes announced 5 April 2013

On Friday 5 April, the government announced more changes to superannuation. This is in response to the significant pressure brought to the government by the whole of the superannuation industry.

The government's announcements are designed to provide a more equitable superannuation system. Please note, these announcements have not yet been legislated and it is not clear whether they will get through parliament before the federal election.

The government's announcement has highlighted a change to the contribution limits for older Australians, with a new unindexed concessional contribution cap of $35,000 for members over 60 years of age.

This new cap is to apply from 1 July 2013. For members over 50 years of age the higher cap of $35,000 will apply from 1 July 2014. This is a replacement for the expected $55,000 contributions cap for over 50 year olds from 1 July 2014 as detailed in last year's federal budget.

However as a plus, the proposal in last year's budget, to limit the higher contributions cap to superannuation account balances below $500,000, will not go ahead.

This measure is in conjunction with an easing of the excess concessional contribution tax measures. All individuals who contribute excess concessional contributions to superannuation are able to now withdraw all of the excess amount and have that income assessed to them personally at their marginal income tax rates plus interest. The rate of this interest has not been announced. We note that this does not include excess non-concessional contributions at this stage.

The government confirmed its intention to tax contributions of individuals whose income exceeds $300,000 at the higher super tax rate of 30%, rather than the current rate of 15%. In last year's budget this was announced to commence from 1 July 2012; there is nothing in Friday's announcement to change this commencement date, even though this legislation has not yet been finalised.

The other major part of the announcement is a change to the taxation regime applying to funds in pension phase. From 1 July 2014, each member in pension phase will pay tax on earnings above $100,000 at the superannuation rate of 15%. Earnings below $100,000 will remain tax exempt. The announcements include exemptions for capital gains on fund assets held at the announcement date (5 April 2013). This exemption will apply until 1 July 2024 and then any gain accrued after that date will be assessed under the new rules. Superannuation fund assets acquired between the announcement date and 30 June 2014 will be exempt on any gain accrued before 1 July 2014. Any capital gains realised on superannuation fund assets acquired after 1 July 2014 will be included in the calculation of fund income and the $100,000 limit.

The $100,000 cap can be equated to a 5% average return on an individual's $2 million superannuation interest.

The $100,000 tax free limit will be indexed to Consumer Price Index changes and will increase in $10,000 increments in future years.

The government has not announced changes to the taxation of pensions in the hands of members, and superannuation withdrawals for members over 60 years of age remain tax free.