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2016 Federal Budget update

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Update to announcements affecting superannuation—25 November 2016

Amendments to the package of superannuation reforms announced on 16 September were passed by the Senate on 23 November. This means that the superannuation reforms initially put forward as part of the May 2016 budget have now passed both Houses, and will come into effect on July 1, 2017.

The key changes put forward as part of the September amendment are to:

- replace the lifetime non concessional contributions cap with lower annual caps for non concessional contributions, only available to people with account balances less than $1.6 million;
- defer commencement of carry forward arrangements for concessional contributions; and
- not proceed with measures to increase the flexibility for contributions for people aged 65 to 74.

You can learn more about this recent announcement here

Further information on the Government's superannuation changes is also available.

We will shortly provide additional information about these changes and how these above changes may apply to CSS members.

While CSC has scheme specific information relating to your current contributions and benefits, to understand your full personal situation in relation to concessional, non-concessional and any pension it is recommended you contact the ATO directly. The ATO aggregates information from all superannuation providers and holds a more complete picture of concessional, non-concessional and total amounts currently held in pension (drawdown phase) accounts.

Please note the recent announcement did not make reference to any of the proposed budget changes or how they would specifically apply to Defined Benefit schemes. Clarity is still being sought on a number of items relating to these changes. However, the impact of these latest amendments will also need to be assessed to determine how they may impact Defined Benefit scheme members.

Keep your contact details up to date

As more detail becomes available we will keep you updated. It is recommended that you ensure your email address is up to date to ensure we can contact you regarding any impacts to your account/ benefit.

Update to announcements affecting superannuation—2 August 2016

Budget measure

Introducing a $1.6 million superannuation transfer balance cap on the total amount of superannuation that an individual can transfer into retirement phase accounts. See **Introducing a $1.6 million transfer balance cap** on the Budget 2016–17 website fact sheet page.

A number of similar changes will apply to defined benefit superannuation arrangements. See **Changes to defined benefit schemes** on the Budget 2016–17 website fact sheet page.

Updated understanding

The Government has made no further announcement regarding this measure.

Subject to legislation being passed to give effect to this proposed measure, it is likely that defined benefit pensions will be subject to both the Tax offset changes and will be included under the $1.6m super transfer cap.

A $1.6m cap has been proposed on the total amount of superannuation that can be transferred into an income stream (ie a pension) from 1 July 2017. It has also been proposed that tax offsets relating to defined benefit pensions will be restricted. It is likely that CSS pensions will be assessed under the $1.6m transfer balance cap, as well as being subject to the tax offset changes.

It is believed the effect of the transfer balance cap is to restrict the amount of superannuation that can be transferred into an income stream, not to restrict how much can be held in superannuation in general, and it's not likely this change will have any impact on the amount of any lump sum entitlements paid to members from their defined benefit scheme. As CSS defined benefit pensions are unallocated, CSC is seeking clarity on the valuation calculation methodology, and also the impact (if any) on invalidity and reversionary pensions, and pensions split under family law arrangements.

Any superannuation income streams outside of CSS (such as CSCri) will also be assessed against this cap.

To broadly replicate the effect of the proposed $1.6 million transfer balance cap, restrictions will also be placed on tax offsets.

For members who receive defined benefit pensions over $100,000 per annum from unfunded defined benefit pensions like CSS (unfunded defined benefit schemes pay pensions that are taxed at the individual's marginal tax rate less a 10 per cent tax offset for those greater than 60 years of age), it has been proposed that the 10% tax offset will continue but be capped at $10,000 from 1 July 2017.

If you have a defined benefit pension that is below $100,000 per annum, and this is your only retirement income stream, then it is possible that you may not be impacted by this measure.

It has been proposed that 50% of defined benefit pension amounts over $100,000 per annum will be taxed at the individual's marginal tax rate. CSC is seeking clarity as to how this particular change will apply (if at all) to defined benefit pensions where members have a funded element (for example a CSS non-indexed pension) within their defined benefit scheme.It is likely the $100,000 per annum cap will be aggregated across unfunded and funded benefits, but clarification is being sought as to whether the current tax-free component of income will count towards the $100,000 per annum pension cap.

Budget measure

Requiring those with combined incomes and superannuation contributions greater than $250,000 to pay 30 per cent tax on their concessional contributions, up from 15 per cent (commonly referred to as the Division 293 threshold). This extends the current treatment of people with combined incomes and superannuation contributions over $300,000. See **Reforming the taxation of concessional contributions** on the Budget 2016–17 website fact sheet page.

Current understanding

The current Division 293 threshold is $300,000 until the end of financial year 2016-17. The proposed budget change is to lower this threshold to $250,000 from 1 July 2017.

Currently, anyone earning an adjusted taxable income of greater than $300,000 pays an extra 15% tax upon their concessional contributions. For the purposes of Division 293 tax threshold, these contributions include:

any salary sacrifice contributions
any Superannuation Guarantee contributions
any employer productivity
any calculated notional (also known as employer defined benefit) contributions.

It is important to note that any concessional contributions below the concessional cap are included in a member's adjusted taxable income when calculating liability for Division 293 tax.

To understand the possible impacts, we have set out two examples below that compare the tax liability differences between the current threshold ($300,000) and the proposed threshold ($250,000)

Example for financial year 2016-17 (threshold = $300,000)

A member's adjusted taxable income was $290,000 and they had $25,000 of concessional contributions made up of:

Salary sacrifice contributions of $2,000
Employer Productivity of $5,000
Notional defined benefit contributions of $18,000

Division 293 tax is calculated as the lesser of the total concessional contributions OR the amount in excess of $300,000 when income and concessional contributions are added together.

In this case the member would be liable for $2,250:

$290,000 + $25,000 = $315,000

$315,000 - $300,000 = $15,000

$15,000 x 15% = $2,250.

Example for the proposed threshold of $250,000 (potentially applicable from the 2017-18 financial year)

If in a future financial year the Divison 293 tax threshold was lowered to $250,000, using this same income and contributions in the previous example the member would instead be liable for $3,750:

$290,000 + $25,000 = $315,000

$315,000 - $250,000 = $65,000 - ($25,000 is the lesser amount in this example)

$25,000 x 15% = $3,750.

PLEASE NOTE: This is just an example and members should seek their own financial and tax advice in relation to their own personal circumstances.

Budget measure

Lowering the superannuation concessional contributions cap to $25,000 per annum. See **Reforming the taxation of concessional contributions** on the Budget 2016–17 website fact sheet page.

Updated understanding

The Government has announced it is proceeding with this measure.

The concessional contributions cap will reduce to $25,000 per annum for everyone regardless of age from 1 July 2017. From 1 July 2017, the Government will also include notional (estimated) and actual employer contributions in the concessional contributions cap for members of unfunded defined benefit schemes and constitutionally protected funds.

The following concessional contribution caps for the financial year 2016-17 are confirmed as:

Under 50 - $30,000 (Members aged 49 years or older on 30 June 2016 have a concessional cap of $35,000

Over 50 - $35,000

The following contributions count toward the concessional contributions cap:

any salary sacrifice contributions
any superannuation guarantee contributions
any employer productivity contributions.

Notional defined benefit contributions are proposed to be included as part of the concessional contribution cap for the first time.

Clarity is still required to understand the impact (if any) of this change for family law situations as well as what options would exist for defined benefit members. These clarifications are required to properly assess those members who may be impacted and the extent of this impact.

In the 2016-17 Budget it was also announced that from 1 July 2017 individuals with superannuation balances of $500,000 or less will be allowed to access their unused concessional cap space to make additional concessional (before-tax) contributions.

Individuals will be able to access their unused concessional contributions cap space on a rolling basis for a period of 5 years. Amounts carried forward that have not been used after 5 years will expire. Only unused amounts accrued from 1 July 2017 can be carried forward.

The Government has also advised that this measure will now been proposed to start from 1 July 2018 instead of 1 July 2017.

Budget measure

Introducing a $500,000 lifetime cap for non-concessional contributions since 1 July 2007. See **A lifetime non–concessional cap** on the Budget 2016–17 website fact sheet page.

Updated understanding

This proposal has now been removed. Instead, the new proposal is for an annual cap of $100,000 to replace the current $180,000 cap from 1 July 2017.

Generally, where an individual's superannuation balance is above $1.6 million they will no longer be eligible to make non-concessional contributions. However, CSC are seeking clarification as to how this will apply to defined benefit members who are required to make contributions.

Members are able to contribute under the existing $180,000 cap and the bring-forward rule can still be utilised up until 30 June 2017 ($540,000) can be contributed (if bring forward rule not already triggered).

If the bring forward has been triggered in 2016/17 and not fully utilised then it can be used in 2017/18 and 2018/19 but with the lower amount of $380,000 ($180,000 + $100,000 + $100,000).

Clarity is being sought regarding the impact to this lifetime non-concessional contributions cap, if any, in relation to benefits split under family law arrangements.

Defined benefit schemes such as CSS will also be impacted by this measure.

Budget measure

> Removing the tax exemption on earnings of assets supporting Transition to Retirement Income Streams from 1 July 2017 (income streams of individuals over preservation age but not retired). See **Improve integrity of transition to retirement income streams** on the Budget 2016–17 website fact sheet page.

Updated understanding

The Government has announced it intends to proceed with this measure and this change applies irrespective of when the TTR income stream commenced (no grandfathering rules will apply).

Members of CSS defined benefit schemes are not able to access benefits under TTR arrangements so members who ONLY have a CSS membership are not impacted by this budget measure.

However, members may be impacted if they have TTR arrangements with another provider or scheme, such as CSCri.

Members who have claimed, or will be claiming, their CSS benefit under TTR arrangements are not likely to be affected by these changes. This is because the equity used to fund a CSS employer financed pension entitlement is not invested, and subsequently does not accrue investment earnings.

However, members may be impacted if they have TTR arrangements with another provider or scheme, such as CSCri.

Budget measure

> The criteria for deductibility of personal contributions will be extended to all individuals from 1 July 2017. See **Improving access to concessional contributions** on the Budget 2016–17 website fact sheet page.

Updated understanding

The Government has announced it is proceeding with this measure. It is believed that CSS scheme members would not be able to claim a deduction through their defined benefits scheme.

Budget measure

The work test for individuals aged from 65 to 74 years of age to make superannuation contribution rules. See **Extending the spouse tax offset** on the Budget 2016–17 website fact sheet page.

Updated understanding

The Government will no longer proceed with this proposal.

This means that individuals over 65 years of age (but under the age of 74 years of age) must have worked for at least 40 hours in a period of not more than 30 consecutive days in a financial yearto be able to make superannuation contributions to a super account. The work test can be satisfied when "employment" involves any endeavour where you receive remuneration for your efforts. You will need to confirm with the tax office whether your specific arrangements satisfy the work test rules.

Budget measure

A new Low Income Superannuation Tax Offset (LISTO) will replace the Low Income Superannuation Contribution (LISC) from 1 July 2017. See **Supporting Australians to save for their retirement by introducing the Low Income Superannuation Tax Offset** on the Budget 2016–17 website fact sheet page.

Updated understanding

The Government has announced it is proceeding with this measure. There is no additional clarity available and it is believed that consultation is continuing in relation to this proposed measure and how it may be implemented.

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CSC is the Trustee of Commonwealth Superannuation Scheme (CSS)