Budget 2016

JOBS & GROWTH

Superannuation Reform:

Reforming the taxation of concessional contributions

The Government will lower the annual cap on concessional (pre-tax) contributions to $25,000 and reduce the income threshold above which high income individuals are required to pay 30 per cent tax on their concessional superannuation contributions — commonly referred to as the Division 293 threshold — to $250,000 per annum. This will better target tax concessions to ensure that the superannuation system is equitable and sustainable.

The issue

The superannuation system is designed to encourage Australians to save for their retirement. This is why contributions to, and earnings on, superannuation are generally taxed at a lower rate than income outside of superannuation.

However, the existing incentives disproportionately benefit high income earners both because they have more savings and because the relative discount on their marginal tax rate is greater. As high income earners will generally save for their retirement, regardless of tax incentives, these concessions are poorly targeted.

The details

From 1 July 2017, the Government will lower the annual concessional contributions cap to $25,000 for all individuals. The cap will index in line with wages growth.

Until this time the existing concessional caps ($30,000 for those aged under 49 at the end of the previous financial year and $35,000 otherwise) will apply.

Most Australians will not be affected by the lower cap.

- The median Australian worker currently makes annual concessional contributions to their superannuation of around $4,200 per year.
- In 2017-18 the lower cap will affect about three per cent of superannuation fund members.

Those who are affected in 2017-18 will have average incomes of around $200,000 and average superannuation balances of around $760,000.

Additionally, the Government will reduce the income threshold, above which individuals will be required to pay an additional 15 per cent tax on their concessional contributions, from $300,000 to $250,000 per annum.

The additional tax is imposed on the whole amount of the contributions, up to the concessional cap, if your salary and wages are above the threshold. Otherwise, the additional tax is only imposed on the portion of the contribution that takes you over the threshold.

To be liable for a total of 30 per cent tax, a person would need to have at least $250,000 in combined income and concessional superannuation contributions.

- In 2017-18 approximately one per cent of fund members are expected to pay additional contributions tax as a result of this measure.
- These individuals will have an average taxable income of $270,000 and an average superannuation balance of $550,000.

Existing processes for the administration of the concessional contributions caps and the imposition of the additional 15 per cent tax on contributions will be maintained, although some processes will be streamlined.

The details of the broadly commensurate treatment of members of defined benefit schemes are in Superannuation Fact Sheet 5.

Budget impact

These measures are estimated to improve the underlying cash balance by $2.3 billion over the forward estimates.

Cameo — Madeline

In 2017-18, Madeline earns $260,000 in salary and wages. In the same year she has concessional superannuation contributions of $30,000.

Madeline's fund will pay 15 per cent tax on these contributions. Madeline will pay an additional 15 per cent tax on the $25,000 of concessional contributions resulting in these amounts effectively being taxed at 30 per cent.

The $5,000 of contributions in excess of the cap will be included in Madeline's assessable income and taxed at her marginal rate. Madeline pays $1,600 income tax on her excess contribution.