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Making a fairer and more sustainable Superannuation System

Fact sheets and Q&As

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Superannuation fact sheets

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A superannuation system that is sustainable, flexible and has integrity

Legislation to implement the Government's superannuation reforms passed the Parliament on 23 November 2016. The superannuation reform package was announced in the 2016-17 Budget and amended following consultation. The changes improve the fairness, sustainability, flexibility and integrity of the superannuation system.

On 9 November 2016, the Government introduced the Superannuation (Objective) Bill 2016, which will enshrine the objective of superannuation in legislation. It sets out a clear objective for superannuation: 'to provide income in retirement to substitute or supplement the Age Pension', which guided the superannuation changes. The Objective Bill is being considered by the Economics Legislative Committee, which is due to report on 14 February 2016.

These fact sheets explain the reforms to the superannuation system. Most measures will take effect from 1 July 2017.Better targeted tax concessions will make the superannuation system more sustainable while fiscal challenges are ongoing. Annual caps will constrain the ability to build large balances while allowing individuals to save for retirement consistent with the objective of superannuation. Savings also enable reforms that allow the system to work better for all Australians and increase its flexibility to align with the changing work-life patterns of modern Australia.

Overview of Superannuation Reforms

This package of reforms will improve the sustainability, flexibility and integrity of the superannuation system.

Sustainability

The Government is better targeting tax concessions to ensure that the superannuation system is sustainable, affordable and equitable by:

- introducing a $1.6 million cap on the total amount of superannuation that can be transferred into 'retirement phase' accounts;
- requiring those with incomes (including superannuation) greater than $250,000 to pay 30 per cent tax on their concessional contributions, up from 15 per cent, consistent with current treatment for people with incomes over $300,000;
- lowering the concessional contributions caps so that individuals can contribute up to $25,000 per annum pre-tax to superannuation;
- lowering the annual non-concessional contributions cap to $100,000 for those with superannuation balances below $1.6 million, with a 3 year bring forward available for individuals under age 65; and
- introducing a Low Income Superannuation Tax Offset to replace the Low Income Superannuation Contribution when it ends on 30 June 2017, to continue to support the accumulation of superannuation for low income earners.

Flexibility

Recognising that individuals have different work patterns across their lives, the Government will also improve the flexibility of the superannuation system by:

- allowing more Australians to claim a tax deduction for personal superannuation contributions made to an eligible fund, irrespective of their employment arrangements;
- allowing the rollover of unused concessional caps so that those with interrupted work arrangements and low superannuation balances can make 'catch up' superannuation contributions;
- encouraging partners to make contributions to their low income spouses' superannuation by extending the eligibility for individuals to claim a tax offset for these contributions; and
- removing barriers to innovation in the creation of retirement income products by extending the tax exemption to other products.

Integrity

The superannuation changes will improve the integrity of the superannuation system by reducing the extent to which it is used for tax minimisation and estate planning. The introduction of tighter caps are key elements in improving confidence that the system is being used for its core purpose.

The Government will further improve the integrity of the superannuation system by:

- ensuring that the transition to retirement income stream regime is fit for purpose and participants are less motivated by tax benefits; and
- removing the out dated anti-detriment provision.

Budget impact

The Government's superannuation reform package is estimated to improve the underlying cash balance by $2.8 billion over the forward estimates. The financial implications differ from those published in the 2016-17 Budget due to changes to the package announced on 15 September 2016 and variations arising from changes to the implementation of the package informed by consultation.

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Superannuation reforms at a glance

	BEFORE			AFTER (from 1 July 2017)		
	TAX	LIMIT	OTHER	TAX	LIMIT	OTHER
CONCESSIONAL (BEFORE-TAX) CONTRIBUTIONS Include: • compulsory Super Guarantee contributions; • voluntary salary sacrificed contributions; and • voluntary personal contributions where a tax deduction is claimed.	15% 30% if income and super >$300K refund tax if income ≤$37,000 Low Income Super Contribution	$30,000 p.a ($35,000 for people 49 and over)	Only the self-employed whose salary and/or wage is less than 10% of their income can make deductible contributions. People aged 65-74 can only make voluntary contributions if they are working.	15% 30% if income and super >$250K refund tax if income ≤$37,000 Low Income Super Tax Offset	$25,000 p.a for everyone and allowing catch-up contributions of unused caps from the prior 5 years for people with balances less than $500,000, from 1 July 2018.	**More people** are able to claim a tax deduction for super contributions to eligible super accounts up to the cap. People aged 65-74 can only make voluntary contributions if they are working.
NON-CONCESSIONAL (AFTER-TAX) CONTRIBUTIONS Include: • contributions from take home pay; • inheritances; • spouse contributions; • proceeds from sales of assets; and • contributions above the concession limit.	After-tax income no tax in fund	$180,000 p.a 3 yr bring forward for people under 65.	$1.4 million additional CGT cap for eligible small business owners . Tax offset for spouse contributions only where recipient income is less than $13,800 People can only make non-concessional contributions to their spouse if their spouse is less than 65 or 65-70 and working.	After-tax income no tax in fund	$100,000 p.a for people with balances less than $1.6m, with 3yr bring forward for people under 65.	$1.4 million additional CGT cap for eligible small business owners. Tax offset for spouse contributions where spouse income is less than $40,000 People can only make non-concessional contributions to their spouse if their spouse is less than 65 or 65-70 and working.
EARNINGS TAX ON ACCUMULATION ACCOUNTS	15% (10% on capital gains)			15% (10% on capital gains)		
EARNINGS TAX ON RETIREMENT PHASE ACCOUNTS	TAX FREE	no limit No limit on the size of retirement phase accounts	People who have reached preservation age but are under 65 and not retired **can access** a transitional super income stream (TRIS) with tax free earnings. Only income streams that pay a regular income are eligible for the earnings tax exemption.	TAX FREE	$1.6m transfer balance limit Excess balances can be held in an accumulation account.	People who have reached preservation age but are under 65 and not retired **can still access** a transitional super income stream (TRIS)but earnings on the amount supporting it will be taxed at 15%. Innovative new retirement income stream products will **become eligible** for the earnings tax exemption.
BENEFITS	TAX FREE	Minimum draw down requirements for retirement account based pensions.	People can elect to treat certain income streams (including TRIS) as lump sum payments to **reduce their tax liability**.	TAX FREE	Minimum draw down requirements for retirement account based pensions.	People will **no longer** be able to treat super income streams (including TRIS) as lump sum payments to reduce their tax.

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Impact of superannuation reforms on fund members

In 2017-18, 96% of superannuation account holders will not be affected. People aren't affected unless they:

MAKE CONCESSIONAL CONTRIBUTIONS

>$25,000 PER YEAR

around **3.5 per cent**

HAVE INCOME (INC. SUPER CONTRIBUTIONS)

>$250,000 PER YEAR

around **1 per cent**

HAVE A SUPERANNUATION BALANCE

>$1.6m

less than **1 per cent**

MAKE OR PLAN TO MAKE

>$300,000 NON-CONCESSIONAL CONTRIBUTIONS IN A 3 YEAR PERIOD

less than **1 per cent**

BENEFITS OF SUPERANNUATION REFORMS

Introduce the Low Income Superannuation Tax Offset

Introducing the Low Income Superannuation Tax Offset
will increase the superannuation savings of

Around 3.1 million low income Australians, including around 1.9 million women.

The Low Income Superannuation Tax Offset will ensure that individuals with annual income up to **$37,000** do not face adverse tax outcomes by making contributions to their superannuation.

Improving access to concessional contributions

More workers, regardless of their employment circumstances, will now have the flexibility to make concessional contributions up to the cap. This includes those who earn a small amount of their income in salary and wages, such as self-employed contractors or those without access to salary sacrifice.

It is expected that this will improve the superannuation balances of

Around 800,000 working Australians.

Catch-up concessional contributions

Individuals who take time out of the workforce and have lower superannuation balances will be provided with the flexibility to make catch-up superannuation contributions at times when they can afford to do so.

It is expected that

Around 230,000 people, including those with interrupted work patterns

will utilise this flexibility to make additional superannuation contributions in 2019-20.

Extending the spouse tax offset

The income eligibility threshold to claim a tax offset for contributions made to a spouse will increase to **$40,000** per annum.

An extra

Around 5,000 people with low income partners

are expected to receive a tax offset for helping their spouse save for retirement.

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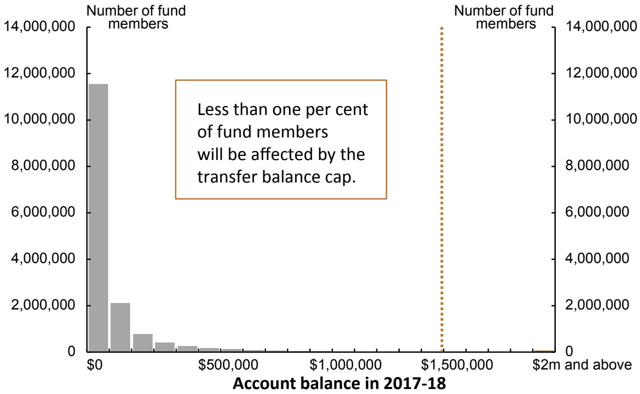
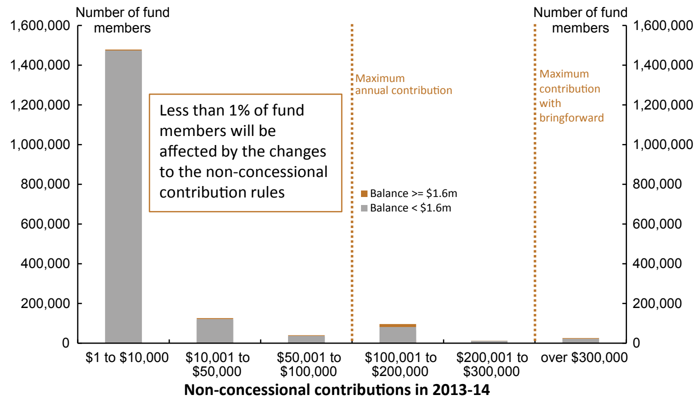
Impact of superannuation reforms on fund members

IMPACT OF SUSTAINABILITY MEASURES IN 2017-18

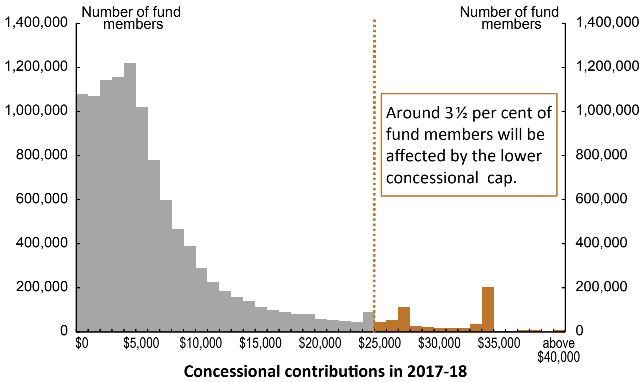
Introduce $1.6 million balance transfer cap



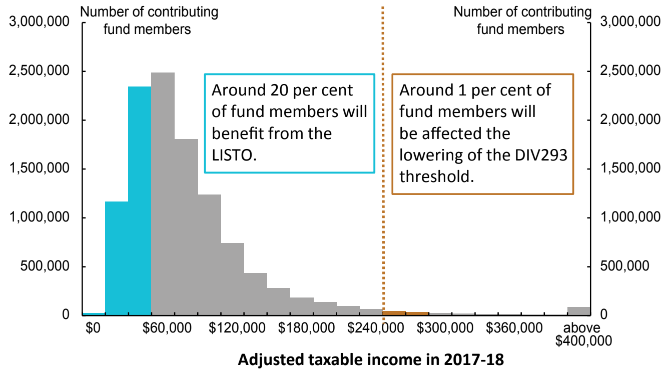
Lower annual non-concessional cap



Lower concessional contributions caps



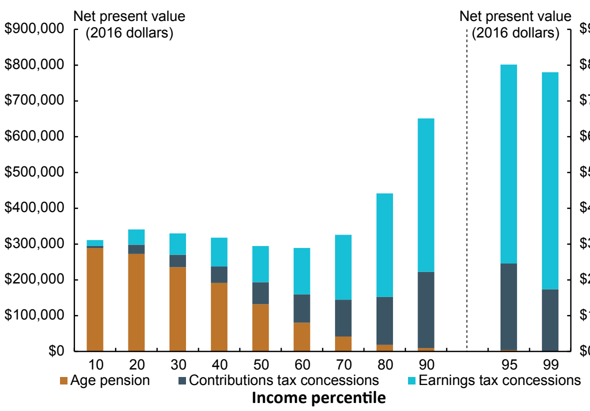
Reduce high income super tax threshold and introduce LISTO



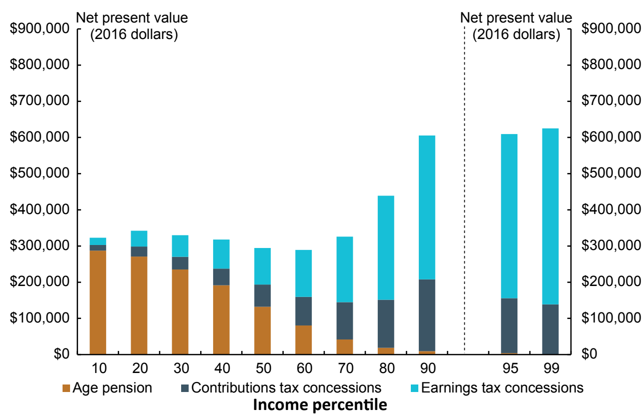
Source: Treasury calculations based on ATO tax return data

DISTRIBUTION OF LIFETIME TOTAL GOVERNMENT SUPPORT FOR RETIREMENT

Current Policy



New Policy



Source: Treasury calculations

Individuals are assumed to commence work in 2016 at age 30 and work until age 70, with a predicted life expectancy of 92. Accumulated superannuation benefits are invested in an account based pension and individuals are assumed to draw down their assets at the current age based minimum drawdown rates. The level of tax assistance and Age Pension entitlements are discounted by 5 per cent per annum to give a net present value in 2016 dollars. Annual incomes are calculated for each percentile based on the distribution of earners at each single year of age. Assumes no non-concessional contributions.

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Superannuation Reform:

Introducing a $1.6 million transfer balance cap

The Government will introduce a $1.6 million cap on the total amount of superannuation savings that can be transferred from a concessionally-taxed 'accumulation account' to a tax-free 'retirement account'. This will better target tax concessions to ensure the superannuation system is sustainable, and improve confidence in the system by reducing the extent that superannuation is used for tax minimisation and estate planning.

The issue

Superannuation tax concessions are intended to encourage people to save for their retirement. They are not intended to provide people with the opportunity for tax minimisation or for estate planning.

As the earnings from retirement phase superannuation accounts are tax-free they are a very desirable investment choice for individuals.

Limiting the amount that can be transferred into a tax-free retirement account will make the superannuation system more fiscally sustainable and increase confidence that the settings are consistent with the objective of superannuation.

The details

From 1 July 2017, the Government will introduce a $1.6 million cap on the total amount of superannuation that can be transferred into a tax-free retirement account.

- Like the Age Pension, the cap will index in line with the consumer price index. The transfer balance cap will increase in $100,000 increments.
- Superannuation savings accumulated in excess of the cap can remain in an accumulation superannuation account, where the earnings will be taxed at 15 per cent.
- A proportionate method which measures the percentage of the cap previously utilised will determine how much cap space an individual has available at any single point in time.
  - For example, if an individual has previously used up 75 per cent of their cap they will have access to 25 per cent of the current (indexed) cap.
- Subsequent fluctuations in retirement accounts due to earnings growth or pension payments are not considered when calculating cap space.
- Following consultation, the Government commits to reviewing the impact of the transfer balance cap should there be a macroeconomic shock that substantially affects retirement incomes. The review would draw on advice from the Council of Financial Regulators and on actuarial advice to inform what response, if any, may be required.

Consequences for breach

Individuals who breach the cap will be required to remove the excess capital from their retirement phase account and will be liable to pay tax on the notional earnings attributable to the excess capital. The amount removed from the retirement phase can be transferred into an accumulation account, where the earnings will be concessionally taxed at 15 per cent, or withdrawn from superannuation.

Those individuals already in retirement as at 1 July 2017 with balances in excess of $1.6 million will need to either:

- transfer the excess back into an accumulation superannuation account; or
- withdraw the excess amount from their superannuation.

Transitional arrangements will apply for existing account holders.

Individuals can also apply to the Commissioner of Taxation to replenish their transfer balance cap space for anomalous situations that cause their retirement balance to be depleted, such as fraud, bankruptcy or family law splits.

Where a fund moves an asset back to an accumulation account to comply with the introduction of the transfer balance cap before 1 July 2017, the fund will have the option of resetting that asset's cost base to its current market value.

This will ensure that tax will not be applied to gains that accrued while the asset supported a retirement phase interest.

Where an asset is already partially supporting an accumulation account, the fund will have a capital gains tax liability on the non-exempt proportion of the unrealised gains. The liability can be paid immediately or deferred until the asset is sold.

Impact

Very few people will be affected by this proposal. The average superannuation balance for a 60-year old Australian nearing retirement is $240,000 and less than one per cent of fund members will be affected by the balance cap.

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

Budget impact

The measure is estimated to improve the underlying cash balance by $1.8 billion over the forward estimates.

Cameo - Jason

Jason is 60 and plans to retire during the 2017-18 financial year. Jason expects he will have an accumulated superannuation balance of less than $1.6 million. This measure does not affect Jason.

Cameo - Agnes

Agnes, 62, retires on 1 November 2017. Her accumulated superannuation balance is $2 million.

Agnes can transfer $1.6 million into a retirement income account. The remaining $400,000 can remain in an accumulation account where earnings will be taxed at 15 per cent. Alternatively, Agnes may choose to remove this excess amount from superannuation.

While Agnes will not have the ability to make additional contributions into her retirement account, her balance will be allowed to fluctuate due to earnings growth or drawdown of pension payments.

$1.6 million transfer balance cap

When does the measure start?

- The $1.6 million transfer balance cap will commence on 1 July 2017.

Is the $1.6 million transfer balance cap retrospective?

- No. The Government is simply limiting the amount that benefits from the tax-free retirement phase from 1 July 2017.
- Earnings in retirement phase accounts will remain tax-free.
- By the time the new rules apply, individuals who have retirement balances in excess of the transfer balance cap will have had time to transfer any excess into the concessionally taxed accumulation phase, where earnings are taxed at 15 per cent, or out of the superannuation system.

Can I make more than one transfer?

- Yes, individuals will be able to make transfers in the retirement phase as long as they have available cap space.
- The amount of the cap space an individual has available will be determined by the proportionate method which measures the percentage of the cap previously utilised.

How many people will this affect?

- It will affect less than 1 per cent of Australians with a superannuation account.
- The average superannuation balance of a 60-year old Australian nearing retirement is $240,000.

What if I have more than one superannuation retirement account? Is it $1.6 million per account?

- No, the cap applies to the total amount of superannuation that has been transferred into the retirement phase, it does not matter how many accounts these balances are held in.
- Similarly, for individuals already in retirement prior to 1 July 2017, the cap applies to the total amount held in the retirement phase, it does not matter how many accounts these balances are held in.

What sort of income and living standards will I have with a $1.6 million balance in retirement?

- A balance of $1.6 million is approximately twice the level of assets at which a single homeowner currently loses entitlement to the Age Pension, and almost three times the 'comfortable standard' of the Association of Superannuation Funds of Australia.

Does the cap limit how much I can hold in my retirement phase account? What happens if my retirement account grows in excess of $1.6 million?

- The cap only limits the amount you can transfer into a retirement phase account it does not apply to the balance on that account.
- Your balance can grow above $1.6 million in your retirement phase account. The cap does not apply to this subsequent growth.

Once my retirement phase account balance falls below $1.6 million, can I transfer more?

- An individual can transfer more into a retirement phase account only if they have not previously exhausted their cap. The amount of the cap space an individual has available will be determined by the proportionate method which measures the percentage of the cap previously utilised.
- If, for example, an individual transfers the full $1.6 million into a retirement phase account which subsequently decreases the individual will not be able to transfer any more into the retirement phase as they have utilised 100 per cent of their cap space.
- If an individual transfers $800,000 into a retirement phase account, they will have utilised 50 per cent of the cap space. If the cap is later indexed to, for example, $1.7 million, they will be able to transfer an additional 50 per cent of the indexed cap, being $850,000.

What happens if I make transfers in excess of the cap after 1 July 2017?

- If an individual transfers amounts into a retirement phase account in excess of the cap, they will be required to remove the excess (including notional earnings on the excess capital). If they choose not to, their fund will be required to remove the excess on their behalf.
- These amounts can be transferred back into an accumulation account, where the earnings on the excess will be taxed concessionally at 15 per cent. Alternatively, the excess can be withdrawn from superannuation.
- For a first breach, individuals will be subject to a 15 per cent tax on the notional earnings.

What happens if I am already retired before 1 July 2017 and have a retirement phase balance in excess of $1.6 million?

- Individuals already in retirement with retirement phase balances in excess of the cap at 30 June 2017 will be required to either:
  - withdraw these excess amounts from superannuation; or
  - transfer these excess amounts back into an accumulation account.
- The earnings on funds in an accumulation account will be taxed at the 15 per cent concessional tax rate.
- Transitional arrangements will apply for those above $1.6 million but at or below $1.7 million – individuals will have 6 months from 1 July 2017 to remedy the breach. If they comply, no further penalty is applicable.
- Those who do not remedy the breach or who have balances above $1.7 million on 30 June 2017 will be subject to the consequences of their fund removing the excess and a tax on notional earnings on the excess capital.

What if I retired before 1 July 2017 and transferred less than $1.6 million at that time, but my balance has grown to $2 million through investment returns?

- You will still need to comply with the cap. If your balance on 30 June 2017 is in excess of $1.6 million, you will need to remove the excess amount from your retirement account.

How will this cap apply to defined benefit pensions?

- Different arrangements involving changes to the taxation of defined benefit pension payments will be adopted to achieve a broadly commensurate taxation outcome to that of the transfer balance cap.
- Defined benefit pensions will not be required to be commuted and rolled-back if they are valued at over $1.6 million. Rather, defined benefit pension payments over $100,000 per annum will be subject to additional taxation to broadly replicate the effect of the $1.6 million transfer balance cap.

How will this cap apply to non-commutable pensions (commenced prior to 1 July 2017)?

- Non-commutable pensions that commenced prior to 1 July 2017 will be treated the same as defined benefit pensions.

How will this cap apply to non-defined benefit, non-account-based income streams (started after 1 July 2017)?

- Products such as lifetime annuities, market-linked pensions and annuities and term/life expectancy pensions and annuities will be valued using their purchase price.

How will this cap apply to future 'innovative' income stream products?

- These products will be valued using their purchase price.
- If a product is purchased with instalments during the accumulation phase or deferred from the point of purchase, it will be valued using an existing method requiring actuarial certification.
- Collective defined contribution scheme pensions will be valued at the amount of the collective pool of fund assets attributed to the member on the day the pension commences and certified by an actuary.

Do transition to retirement income streams count towards the transfer balance cap?

- No. As transition to retirement income streams (TRIS) will no longer receive an earnings tax exemption from 1 July 2017 they do not count towards the transfer balance cap.

Can I still split my retirement phase interests to purchase or diversify my retirement income streams?

- Yes. Once you have transferred your superannuation income streams to the retirement phase, they are not counted again towards your transfer balance cap.
- To achieve this outcome, your transfer balance account will receive a 'debit' equal to the value of the amount commuted. This amount, plus any unused cap space, may then be used to purchase a new income stream or retirement product.
- To ensure the integrity of this approach, you will no longer be able to use partial commutations to satisfy minimum drawdown requirements.
- If you choose to commute your income streams (either in part or in full) you will receive a debit equal to the value of the commutation.

Do I need to pay tax on income from my retirement account? Or on the amounts that I withdraw from my accumulation phase account?

- No. The Government has not changed the taxation treatment of amounts drawn down from superannuation accumulation accounts by people who have reached their preservation age. Superannuation benefits paid, either as an income stream or as a lump sum, from a funded source (that is, one in which taxes have been paid on contributions and earnings such as in an accumulation scheme or a funded Defined Benefit scheme), are generally tax-free for people aged 60 and over.
- The earnings on amounts in an accumulation phase account are taxed at the concessional 15 per cent tax rate. Withdrawn funds are not taxed, providing the individual has reached age 60. There are no minimum (or maximum) drawdown requirements from accumulation accounts.

Will the $1.6 million transfer balance cap be indexed?

- Yes. The cap will index in $100,000 increments in line with the consumer price index, just as the Age Pension assets threshold does.

Do structured settlements or personal injury payouts count towards the cap?

- These amounts will not count towards an individual's transfer balance cap. This will ensure that individuals can continue to access these arrangements which support them in meeting their healthcare and living costs.

For couples where one spouse either does not have a superannuation account or has a low balance in their account/s can they have a joint $3.2 million cap?

- The transfer balance cap is an individual cap. Each individual can transfer $1.6 million into their retirement phase account/s from their accumulation account/s.
- An individual with more than $1.6 million in the retirement phase will need to either transfer the excess to an accumulation account where earnings will be taxed, or withdraw the excess from the superannuation system. Subject to the contribution caps, excess amounts withdrawn could be contributed to their spouse's account.
- In the superannuation system, and most areas of tax, people are taxed and treated as individuals not as families or households.

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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.

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Superannuation Reform:

Annual non-concessional contributions cap

From 1 July 2017, the Government will lower the annual non-concessional (post-tax) contributions cap to $100,000 and will introduce a new constraint such that individuals with a balance of $1.6 million or more will no longer be eligible to make non-concessional contributions. As is currently the case, individuals under age 65 will be eligible to bring forward 3 years of non-concessional contributions. The new annual cap with the eligibility threshold replaces the lifetime $500,000 non-concessional contributions cap announced in the 2016-17 Budget.

This will better target tax concessions to ensure that the superannuation system is equitable and sustainable, ensuring those who have saved well in excess of what is required to be self-sufficient in retirement are not able to continue to access further concessional tax treatment. It will also provide flexibility recognising that non-concessional contributions are often made in large lump sums.

The issue

Individuals can currently make non-concessional contributions of $180,000 per year, or $540,000 every three years for individuals under 65. These non-concessional contributions are generally voluntary contributions into superannuation made out of an individual's post-tax income. Earnings on these contributions are taxed at a flat rate of 15 per cent in accumulation accounts and then are tax free when transferred into a retirement account. In both cases, the tax treatment of earnings on these non-concessional contributions is highly concessional.

The details

From 1 July 2017, the Government will lower the annual non-concessional contributions cap to $100,000, which is four times the annual concessional contribution cap, with a three year bring forward ($300,000) for those aged under 65. Where an individual's total superannuation balance is $1.6 million or more they will no longer be eligible to make non-concessional contributions.

The $1.6 million eligibility threshold will be based on an individual's balance as at 30 June the previous year. This means if the individual's balance at the start of the financial year (the contribution year) is $1.6 million or more they will not be able to make any further non-concessional contributions. Individuals with balances close to $1.6 million will only be able to bring forward the annual cap amount for the number of years that would take their balance to $1.6 million.

Transitional arrangements will apply. If an individual has not fully used their non-concessional bring forward before 1 July 2017, the remaining bring forward amount will be reassessed on 1 July 2017 to reflect the new annual caps.

As is currently the case, individuals aged between 65 and 74 will be eligible to make annual non-concessional contributions of $100,000 if they meet the work test (that is they work 40 hours within a 30 day period each income year), but will not be able to access the bring forward of contributions.

The annual cap will be linked to indexation of the concessional contributions caps. The $1.6 million eligibility threshold will be indexed as per the transfer balance cap.

Non-concessional contributions to defined benefit schemes and constitutionally protected funds will be subject to the revised caps. For details of the treatment of defined benefit scheme members see Superannuation Fact Sheet 5.

Budget Impact

The measure is estimated to improve the underlying cash balance by $200 million over the forward estimates.

Eligibility threshold

Individuals are eligible to make non-concessional contributions where their total superannuation balance is less than $1.6 million. Where their balance is close to $1.6 million, they will only be able to make a contribution in that year and access the bring forward of future years contributions that would take their balance to $1.6 million.

Superannuation Balance	Contribution and bring forward available
Less than $1.3 million	3 years ($300,000)
$1.3 - <$1.4 million	3 years ($300,000)
$1.4 - <$1.5 million	2 years ($200,000)
$1.5 - <$1.6 million	1 year ($100,000)
$1.6 million	Nil

Transitional arrangements

Where an individual has made a non-concessional contribution in 2015-16 or 2016-17 and that triggers the bring forward, but has not fully used their bring forward before 1 July 2017, transitional arrangements will apply so that the amount of bring forward available will reflect the reduced annual contribution caps. Where the non-concessional contribution bring forward was triggered in 2015-16, the transitional cap will be $460,000 (the annual cap of $180,000 from 2015-16 and 2016-17 and the $100,000 cap in 2017-18). If the bring forward was triggered in 2016-17, the transitional cap will $380,000 (the annual cap of $180,000 in 2016-17 and $100,000 cap in 2017-18 and 2018-19).

2015-16	2016-17	2017-18	2018-19	2019-20
More than $460,000		Nil	End of transition period $100,000 or 3 year bring forward	-
More than $180,000 but less than $460,000	Cannot exceed $460,000 from 2015-16 to 2017-18		End of transition period $100,000 or 3 year bring forward	-
-	More than $380,000	Nil	Nil	End of transition period $100,000 or 3 year bring forward
-	More than $180,000 but less than $380,000	Cannot exceed $380,000 from 2016-17 to 2018-19		End of transition period $100,000 or 3 year bring forward

For example, if you make a contribution to access the bring forward in 2016-17, the bring forward amount available in later years is $380,000 (see example 1 and 2). If you made a contribution in 2015-16, the bring forward amount will be $460,000 (see example 3).

	2015-16	2016-17	2017-18	2018-19	2019-20
1		$200,000	$180,000	Nil	$100,000
2		$200,000	$90,000	$90,000	$100,000
3	$200,000	$200,000	$60,000	$100,000	Nil

Cameo – Kylie

Kylie's superannuation balance is $500,000. She sells an investment property and makes a non-concessional contribution to her superannuation of $200,000 in October 2017. As Kylie has triggered her bring forward, she would be able to make a further non-concessional contribution of $100,000 in 2018-19. In 2020-21 her non-concessional contribution caps would reset and she could make further contributions from then.

Cameo – Molly

Molly is 40 and has a superannuation balance of $200,000. In September 2016, she receives an inheritance of $250,000, which she puts into her superannuation. This triggers her three year bring forward. From 1 July 2017, as the cap has been lowered, Molly would be able to make further non-concessional contributions of up to $130,000, taking her to the new bring forward amount of $380,000. Molly makes a non-concessional contribution of $110,000 in 2017-18 and $20,000 in 2018-19. She can then access the new bring forward from 2019-20 and contribute up to $300,000 in non-concessional contributions.

Cameo – Eamon

Eamon has a total superannuation balance of $1.45 million. He can make a non-concessional contribution in 2017-18 of $200,000. He cannot access the full three year bring forward as this would take his balance over $1.6 million. Eamon would also not be able to make any further non-concessional contributions.

Cameo – Gary

Gary is a 72 year old retiree who works around 40 hours in September every year and has a superannuation balance of $450,000. As Gary meets the work test, he can make a non-concessional contribution of $100,000 in 2017-18. However, as Gary is aged over 65 he cannot access the three year bring forward.

Budget 2016

JOBS & GROWTH

Superannuation Reform:
Changes to defined benefit schemes

The Government will make changes so that the superannuation tax reforms apply broadly commensurately to members of defined benefit schemes and constitutionally protected funds.

The issue

Defined benefit schemes, as compared with accumulation schemes, pay benefits based on length of service and final salary. Funded defined benefit schemes are taxed on contributions and earnings but pay tax-free benefits. Unfunded defined benefit schemes pay pensions that are taxed at the individual's marginal tax rate less a 10 per cent tax offset.

Many of the superannuation tax reforms are intended to make the system more equitable and sustainable.

These goals would be undermined if the tax treatment of defined benefit schemes and constitutionally protected funds were not similarly adjusted.

Similar treatment for defined benefit schemes and constitutionally protected funds raises a range of different administrative issues in comparison with accumulation schemes, and most defined benefit schemes have been closed to new members for some time.

The details

Transfer Balance Cap

To broadly replicate the effect of the $1.6 million transfer balance cap, pensions over $100,000 per annum will be subject to additional tax. The amount of an untaxed pension over $100,000 per annum will be taxed at full marginal rates (with no 10 per cent rebate). 50 per cent of the amount of a taxed pension over $100,000 per annum paid to a person aged 60 and over will be included in the recipient's assessable income. For hybrid taxed/untaxed pensions over $100,000, the untaxed component will be stacked on top of the taxed component. Defined benefit pensioners under age 60 who also receive a death benefit pension will also be subject to these arrangements in relation to any part of their combined pension over $100,000 attributable to the death benefit pension. Less than one per cent of defined benefit fund members in retirement phase will be affected by this change.

The $100,000 threshold will be indexed in line with the transfer balance cap.

A defined benefit pension of $100,000 per annum will use up the recipient's transfer balance cap.

They will have to move other pension phase funds back into accumulation or withdraw them from superannuation. Individuals with defined benefit pensions below $100,000 per annum will have space remaining under the transfer balance cap.

Concessional Contributions

Members of untaxed schemes will have notional and actual employer contributions included in their annual concessional cap. These will not be subject to Excess Contribution Tax where they exceed the annual cap (as these schemes are taxed in the benefits stage). However they will not be permitted to make additional salary sacrifice contributions to other schemes. This will only be possible where notional employer contributions are less than $25,000 per annum.

Existing capping arrangements for taxed employer contributions to defined benefit schemes will remain unchanged.

The full notional employer contribution will continue to be used to calculate defined benefit scheme members' liability for Division 293 tax.

Non-concessional contributions

Defined benefit members will be able to make non-concessional contributions up to $100,000 per annum provided their total superannuation balance is less than $1.6 million. Individuals with balances of $1.6 million or more may be required to (or may wish to) make non-concessional contributions under scheme rules but will have zero cap space. These contributions will become excess non concessional contributions.

To ensure commensurate treatment between members of accumulation and defined benefit schemes, defined benefit members who have an excess will need to withdraw an offsetting amount from either an accumulation account (or defined benefit account if possible) to avoid the 47 per cent excess contributions tax (ECT), even if that excess has been caused solely by contributions into the defined benefit account. As a result, a person who has no remaining funds to withdraw the excess from will be subject to ECT of 47 per cent.

Cameo — Deepika

In 2017-18 Deepika, a 62 year-old former public servant, receives a pension of $120,000 from an untaxed defined benefit scheme. As she is aged over 60, Deepika's pension is taxed at marginal tax rates, however she is entitled to a capped offset of $10,000 against her tax liability.

Prior to the changes, she would have been entitled to an offset of $12,000.

Cameo — Paul

In 2017-18 Paul, a 65 year-old former academic, receives a pension of $180,000 from a taxed defined benefit scheme. As he is aged over 60, half of the amount by which his pension exceeds $100,000 (that is, $40,000), will be included in his taxable income and taxed at his marginal tax rate.

Budget 2016

JOBS & GROWTH

Superannuation Reform:

Supporting Australians to save for their retirement by introducing the Low Income Superannuation Tax Offset

The Government will introduce a Low Income Superannuation Tax Offset to replace the Low Income Superannuation Contribution. This will provide continued support for the accumulation of superannuation for low income earners and ensure they do not pay more tax on their superannuation contributions than on their take-home pay.

The issue

The superannuation system is designed to encourage Australians to save for their retirement. This is why superannuation is taxed at a lower rate than income outside of superannuation. However, for low income earners, the 15 per cent tax on superannuation contributions means they pay more tax on their superannuation contributions than on their other income.

The details

From 1 July 2017, the Government will introduce the Low Income Superannuation Tax Offset.

Those with an adjusted taxable income up to $37,000 will receive a refund into their superannuation account of the tax paid on their concessional superannuation contributions, up to a cap of $500.

In effect, this means that most low income earners will pay no tax on their superannuation contributions.

Low income earners, who are disproportionately women, will benefit from the Low Income Superannuation Tax Offset. This is important because women, on average, have lower superannuation balances than men, despite having higher life expectancies. It is expected that in 2017-18 around 3.1 million people (almost two-thirds of whom are women) will benefit from the Low Income Superannuation Tax Offset.

The Low Income Superannuation Tax Offset will effectively avoid the situation in which low income earners would pay more tax on savings placed into superannuation than on income earned outside of superannuation.

Implementation

The Australian Taxation Office will determine a person's eligibility for the Low Income Superannuation Tax Offset and this will be paid into the person's superannuation account.

Cameo — Katherine

In the 2017-18 financial year Katherine worked part-time as a nurse and earnt $35,000. Her employer made superannuation contributions of $3,325 on her behalf.

Katherine is eligible for the Low Income Superannuation Tax Offset. She receives $498.75 of Low Income Superannuation Tax Offset in her account.

Katherine would have received the same amount of Low Income Superannuation Contribution.

Budget 2016

JOBS & GROWTH

Superannuation Reform:

Improving access to concessional contributions

The Government will improve the flexibility of the superannuation system by allowing more people to make tax-deductible personal superannuation contributions to an eligible fund up to their concessional contributions cap.

The issue

Currently, an income tax deduction for personal superannuation contributions is only available to people who earn less than 10 per cent of their income from salary or wages.

This means those who earn a small amount, but more than 10 per cent, of their income in salary and wages are restricted from receiving tax concessions on their retirement savings. It similarly means that some employees are prevented from fully accessing the tax concessions simply because their employer does not allow them to make pre-tax contributions through salary sacrifice.

This change will allow all individuals under 75 to make concessional superannuation contributions up to the concessional cap (including those aged 65 to 74 who meet the work test). Individuals who are partially self-employed and partially wage and salary earners — for example contractors — and individuals whose employers do not offer salary sacrifice arrangements, will benefit from these changes.

The details

From 1 July 2017, the Government will allow all Australians under 75 who make personal contributions (including those aged 65 to 74 who meet the work test) to claim an income tax deduction for any personal superannuation contribution into an eligible superannuation fund. These amounts will count towards the individual's concessional contributions cap, and be subject to 15 per cent contributions tax.

To access the tax deduction, individuals will lodge a notice of their intention to claim the deduction with their superannuation fund or retirement savings provider. Generally, this notice will need to be lodged before they lodge their income tax return. Individuals can choose how much of their contributions to deduct.

Certain untaxed and defined benefit superannuation funds will be prescribed, meaning members will not be eligible to claim a deduction for contributions to these funds. Instead, if a member wishes to claim a deduction, they may choose to make their contribution to another eligible superannuation fund.

This more flexible arrangement will benefit all Australians by allowing them to utilise more of their concessional cap if they have the capacity and choose to do so.

Budget impact

This measure is estimated to decrease the underlying cash balance by $850 million over the forward estimates.

Cameo — Chris

Chris is 31 and decides to start his own online cricket merchandise business. While he gets his business up and running he continues working part-time in an accounting firm where he earns $10,000. In his first year his business earns him $80,000. Of his $90,000 income he would like to contribute $15,000 to his superannuation account.

Under current arrangements, Chris would not be eligible to claim a tax deduction for any personal contributions. While his employer allows him to salary sacrifice into superannuation, he is limited to the $10,000 he earns in salary and wages.

Under the new arrangement, Chris will qualify for a tax deduction for any personal contributions that he makes (up to his concessional cap).

Chris makes a $15,000 personal contribution and notifies his superannuation fund that he intends to claim a deduction. He includes the tax deduction as part of his tax return.

Budget 2016

JOBS & GROWTH

Superannuation Reform:

Allowing catch-up concessional contributions

The Government will allow individuals with a total superannuation balance of less than $500,000 just before the beginning of a financial year to make 'catch-up' superannuation contributions. This will support working Australians to build independent wealth for their retirement, and improve the flexibility of the superannuation system by enabling those with interrupted work arrangements to make 'catch-up' superannuation contributions.

The issue

The annual concessional (before-tax) superannuation caps currently offer little flexibility for those who take time out of work, work part-time, or have 'lumpy' income and therefore have periods in which they make no or limited contributions to superannuation.

Women often have interrupted work patterns or work part-time, which contributes to lower, on average, superannuation account balances than men.

Additionally, individuals may take time out of the workforce to undertake caring responsibilities, further studies, or due to physical or mental illness.

Similarly, there is limited flexibility for those who find that they have greater disposable income later in life when some ongoing costs, such as mortgage repayments and school fees diminish.

Allowing people to carry forward unused concessional cap amounts provides them with the opportunity to 'catch-up' if they have the capacity and choose to do so.

The details

People with a total superannuation balance of less than $500,000 will be able to carry forward their unused concessional cap space amounts from 1 July 2018.

Individuals will be able to access their unused concessional contributions cap space on a rolling basis for a period of five years. Amounts that have not been used after five years will expire.

This increased flexibility will make it easier for people with varying capacity to save and for those with interrupted work patterns, to save for retirement and benefit from the tax concessions to the same extent as those with regular income.

Individuals aged 65 to 74 who meet the work test will be able to access these arrangements.

Cameo — Cassandra

Cassandra is a 46-year-old earning $100,000 per year. She has a superannuation balance of $400,000.

In 2018-19, Cassandra has total concessional superannuation contributions of $10,000.

In 2019-20, Cassandra has the ability to contribute $40,000 into superannuation of which $25,000 is the amount allowed under the annual concessional cap and $15,000 is her unused amount from 2018-19 which has been carried forward.

The full $40,000 will be taxed at 15 per cent in the superannuation fund. Prior to the changes, her amounts in excess of the annual cap would have been subject to tax at her marginal rate, resulting in an additional $3,600 tax liability.

Catch-up contributions

How much is carried forward?

- Only amounts of unused concessional cap space from 1 July 2018 will be carried forward.
- For example, if in 2018-19 an individual contributes $15,000 they will carry forward $10,000.

I didn't work in 2015 or 2016 and didn't make contributions. Can I carry forward those unused amounts?

- No, only unused amounts from 1 July 2018 onwards can be carried forward.

How will I know how much I can contribute in any single year?

- Members seeking to utilise the carry forward should keep track of their available amounts by reviewing prior year concessional contributions compared to the relative cap in that year. This information can generally be found on the member contribution statements funds provide to members each year.

What happens if I contribute more than I am allowed?

- An individual can make concessional contributions in a single year up to the value of the concessional cap and any carried forward amount they have available. Any amounts in excess of this will be taxed at the individual's marginal tax rate.

Is there a limit on how long amounts can be carried forward?

- Carried forward amounts expire if they remain unused after five years.

How do I know if my balance is below $500,000 so I can make additional contributions?

- In the first instance you should contact your fund(s) to determine the value of your total superannuation balance.
- In addition the ATO currently displays the last reported balances for all of an individual's superannuation accounts through the MyGov online service.

How is my superannuation balance calculated?

- An individual's superannuation balance will be calculated as the sum of their accumulation phase superannuation interests (i.e. those not in the retirement phase) and the balance as reported for the transfer balance cap. Their balance will also include any roll-over amounts that haven't already been counted elsewhere.

Budget 2016

JOBS & GROWTH

Superannuation Reform:

Extending the spouse tax offset

The Government will extend the current spouse tax offset to assist more couples to support each other in saving for retirement. This will better target superannuation tax concessions to low income earners and people with interrupted work patterns.

The issue

The superannuation system offers little flexibility for those who take time out of work, work part time, or have ‘lumpy’ income and therefore have periods in which they make no or limited contributions to superannuation.

Many working Australians, especially women, take time out of the workforce to raise children or care for a relative. Many return to work part-time.

This contributes to women having lower superannuation balances. In 2013-14 the average superannuation balance for a woman was around 74 per cent of the average superannuation balance for a man.

Although women are more likely to have interrupted work patterns, they also have a longer life expectancy than men and need higher superannuation balances to support a longer retirement.

The details

From 1 July 2017, the Government will extend the eligibility rules for claiming the tax offset for superannuation contributions partners make to their low income spouses.

The current 18 per cent tax offset of up to $540 will be available for any individual, whether married or de facto, contributing to a recipient spouse whose income is up to $37,000. This is an increase from the current $10,800. As is currently the case, the offset is gradually reduced for income above this level and completely phases out at income above $40,000.

No tax offset will be available when the spouse receiving the contribution has exceeded their non-concessional contributions cap or their balance is $1.6 million or more.

There are no changes to the current aged based contribution rules. The spouse receiving the contribution must be under age 70, and meet a work test if aged 65 to 69.

Budget impact

This measure is estimated to decrease the underlying cash balance by $10 million over the forward estimates.

Cameo — Anne and Terry

Anne earns $37,500 per year. Her husband Terry wishes to make a superannuation contribution on Anne’s behalf.

Under the current arrangements, Terry would not be eligible for a tax offset as Anne’s income is too high. There is no incentive for Terry to make a contribution on behalf of Anne.

Under the new arrangements, Terry would be eligible to receive a tax offset.

As Anne earns more than $37,000 per year, Terry will not receive the maximum tax offset of $540. Instead, the offset is calculated as 18 per cent of the lesser of:

- $3,000 reduced by every dollar over $37,000 that Anne earns, or
- the value of spouse contributions.

For example, Terry makes $3,000 of contributions and Anne earns $500 over the $37,000 threshold. Terry receives a tax offset of $450: 18 per cent of $2,500, as this is less than the value of the spouse contributions ($3,000).

If Anne were to earn more than $40,000 there would be no tax offset.

Budget 2016

JOBS & GROWTH

Superannuation Reform:

Enhancing choice in retirement income products

The Government will remove barriers to innovation in retirement income stream products by extending the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self annuitisation products. This will enhance choice and flexibility for Australian retirees looking to better manage the risk of outliving their retirement savings.

The issue

Current rules restrict the ability of retirement income providers to develop and bring to market new retirement income stream products.

Most Australians receive income in retirement by drawing down regular amounts of superannuation from an account based pension. In doing so they ensure that earnings on these savings are not subject to tax.

Other more tailored products could be made available to help individuals manage their income throughout their retirement years. These products do not currently receive the same tax treatment as account based pensions. This limits the ability of providers to competitively offer this wider range of products.

This issue was highlighted in both the Financial System Inquiry and Retirement Income Streams Review which recommended that barriers to new product development be removed.

The details

From 1 July 2017, the Government will extend the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self-annuitisation products. These products seek to provide individuals with income throughout their retirement regardless of how long they live.

This will allow providers to offer a wider range of retirement income products which will provide more flexibility and choice for Australian retirees, and help them to better manage consumption and risk in retirement, particularly longevity risk, wherein people outlive their savings.

The details of the treatment of these products for the transfer balance cap are in Superannuation Fact Sheet 2.

In addition, the Government will consult on how these new products are treated under the Age Pension means test.

Budget impact

This measure has no impact on the Budget.

Cameo

Emma is a 65 year old retiree who currently draws down her account-based superannuation pension at the minimum rates to ensure her superannuation savings do not run out.

Emma is energetic and healthy and would like to have the confidence that her superannuation savings will last throughout her retirement. However, as deferred and pooled income stream products do not qualify for the retirement phase earnings tax exemption these products are not widely offered in the market.

Extending the retirement phase tax exemption on earnings to a wider range of products will provide Emma with more choice and flexibility. This will allow her to maintain a higher standard of living in retirement and give her peace of mind knowing she will always have a guaranteed income stream.

Budget 2016

JOBS & GROWTH

Superannuation Reform:

Improve integrity of transition to retirement income streams

The Government will remove the tax exempt status of income from assets supporting transition to retirement income streams. Individuals will also no longer be allowed to treat certain superannuation income stream payments as lump sums for tax minimisation purposes. This will improve the sustainability and integrity of the superannuation system by ensuring that transition to retirement income streams are fit-for-purpose.

The issue

Transition to retirement income streams were introduced in 2005 to provide limited access to superannuation for people wanting to move towards retirement by reducing their working hours and using their superannuation to supplement their income.

People can commence a transition to retirement income stream between preservation age (currently 56)[1] and age 65.

Individuals in receipt of transition to retirement income streams enjoy tax-free earnings on their superannuation assets. Recipients are also able to reduce their tax liability by salary sacrificing their income (that would otherwise be taxed at their marginal tax rate) into superannuation and instead taking a superannuation income stream at a concessional tax rate.

The Productivity Commission has recently found that transition to retirement income streams have increasingly been used by people for tax minimisation purposes without any reduction in work hours.

The details

To ensure access to transition to retirement income streams is primarily for the purpose of substituting work income rather than tax minimisation, the tax exempt status of income from assets supporting transition to retirement income streams will be removed from 1 July 2017.

Earnings from assets supporting transition to retirement income streams will now be taxed concessionally at 15 per cent. This change will apply irrespective of when the transition to retirement income stream commenced.

Reducing the tax concessional nature of transition to retirement income streams will ensure they are fit for purpose and not primarily accessed for tax minimisation purposes.

Further, individuals will no longer be able to treat certain superannuation income stream payments as lump sums for tax purposes, which currently makes them tax-free up to the low rate cap ($195,000).

The same transitional arrangements for capital gains tax relief as applies to the transfer balance cap (see Superannuation Fact Sheet 2) will be available to assets affected by this measure.

Budget impact

This measure is estimated to improve the underlying cash balance by $470 million over the forward estimates.

1 An individual's preservation age depends upon their date of birth.

Date of birth	Preservation age (years)
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

Cameo — Sebastian

Sebastian is 57 years old, earns $80,000 and has $500,000 in his superannuation account. He pays income tax on his salary and his fund pays $4,500 tax on his $30,000 earnings.

Sebastian decides to reduce his work hours to spend more time with his grandchildren. He reduces his working hours by 25 per cent and has a corresponding reduction in his earnings to $60,000.

He commences a transition to retirement income stream worth $20,000 per year so that he can maintain his lifestyle while working reduced hours.

Currently, Sebastian pays income tax but his fund pays nothing on the earnings from his pool of superannuation savings.

Under the Government's changes, while the earnings on Sebastian's superannuation assets will no longer be tax free they will still be taxed concessionally (at 15 per cent). He will still have more disposable income than without a transition to retirement income stream. This ensures he has sufficient money to maintain his lifestyle, even with reduced work hours.

Budget 2016

JOBS & GROWTH

Superannuation Reform:

Improving governance and transparency

The Government is strengthening the governance, transparency, competition and efficiency of the superannuation system through a wide range of existing initiatives. These reforms will improve performance and confidence in the system, encouraging increased saving for retirement.

The issue

The Financial System Inquiry (FSI) noted that there is a lack of consumer driven competition in superannuation. It is estimated that around two-thirds of employees play no active role in selecting their superannuation fund. For many, choice of fund is limited by law.

Nearly half of superannuation fund members have more than one account and nearly 20 per cent have three or more accounts. This can result in duplication of fees for fund members, reducing retirement incomes.

Many superannuation fund members don't know the fees they pay and don't know the return their fund makes.

The details

The Government has begun to introduce a broad set of initiatives to improve efficiency, enhance transparency and increase competition in superannuation. These initiatives will help empower consumers, improve after-fee returns, grow superannuation balances and improve retirement incomes.

Initiatives to enhance **transparency** include:

- providing a new choice product dashboard to allow consumers to compare superannuation products more easily;
- requiring superannuation funds to disclose where funds are being invested; and
- allowing superannuation funds to provide retirement income projections on member statements where the superannuation fund determines this to be practical and cost effective.

We are also improving efficiency in various ways.

- Australians can use myGov to find and consolidate their superannuation accounts easily. In 2014-15, around 200,000 people consolidated approximately 440,000 superannuation accounts holding just under $2 billion.
- SuperMatch2 is automating and streamlining existing processes between funds and the Australian Taxation Office (ATO) to facilitate reunification and consolidation of accounts.
- Pre-filled superannuation choice forms on myGov will enable Australians to retain the same superannuation account easily when they change jobs.
- The Government is removing impediments to Eligible Rollover Funds proactively reuniting amounts they hold with active superannuation accounts.
- Legislation requiring a minimum of one-third independent directors, including an independent chair, on superannuation trustee boards is expected to lead to more efficient decision making for the benefit of members.

Government initiatives are helping to boost competition.

- Legislation to extend choice of fund, will allow up to 800,000 more employees to choose where their employer's superannuation guarantee contributions are paid, which will increase competition and reduce the need for multiple accounts.
- The Productivity Commission review of competition and efficiency of the superannuation system will explore concerns about the lack of consumer-driven competition in superannuation.

The Government recognises that more can be done for those who do not choose their superannuation fund. The Government plans to improve the quality and integrity of MySuper products, helping to provide better default products.

Budget 2016

JOBS & GROWTH

Superannuation Reform: Impacts on key groups

Differences in employment arrangements and work patterns mean that some groups may not benefit from consistent compulsory superannuation contributions over their working life. The Government's superannuation package includes a number of measures designed to support more people to save for their retirement.

Women

Women, on average, have lower superannuation balances than men, despite higher life expectancies. Typically women have lower lifetime earnings due to interrupted work patterns and the fact that more women than men work part-time.

Introducing the Low Income Superannuation Tax Offset will increase the superannuation savings of around 1.9 million women with annual income less than $37,000.

In addition, the flexibility to make catch-up concessional contributions is expected to allow around 230,000 individuals to make additional contributions in 2019-20, including women who have taken time out of the workforce.

Expanded eligibility will also allow an extra 5,000 individuals to claim a tax offset for contributions to the superannuation account of a low income spouse.

These measures complement the Government's existing superannuation co-contribution scheme, which matches after-tax contributions of low income earners at a rate of 50 per cent up to $500.

Individuals can also boost their spouse's retirement savings by 'splitting' up to 85 per cent of their concessional contributions each year to their spouse's account.

Contractors and casual workers

Contractors and casual workers do not always benefit from consistent compulsory superannuation contributions over their working life.

Expanded eligibility will mean that more Australians under 75 (including those aged 65 to 74 who meet the work test[1]) will be able to make tax-deductible personal superannuation contributions to an eligible fund up to their concessional cap, regardless of their employment arrangements.

It is expected that this will improve the superannuation balances of 800,000 working Australians, including those who only earn a small amount of their income in salary and wages, such as self-employed contractors, or those without access to salary sacrifice.

The flexibility to make catch-up concessional contributions will also benefit contract workers whose capacity to make contributions may vary.

The Low Income Superannuation Tax Offset will ensure that around 3.1 million people with annual income less than $37,000 do not pay more tax on their superannuation than they do on their income.

The Government is also making ongoing improvements to help people find and claim their lost and unclaimed superannuation, which will assist workers who move between different employers and industries over their career.

Small business owners and farmers

For many small business owners, including farmers, their business represents the main asset they have built up to support their retirement.

Special rules will continue to allow eligible small business owners to make superannuation contributions that do not count towards their non-concessional contributions cap, where the contributions are the proceeds from the disposal of assets exempt from CGT under the 15 year exemption or the retirement exemption.

Contributions made under these special rules are subject to the lifetime CGT cap ($1.415 million in 2016-17).

More than 95 per cent of farms in Australia were classified as small businesses in 2012-13 (annual turnover of less than $2 million). This means that most farmers will continue to be able to use the special rules that apply to small business owners.

Individuals who are self-employed may also benefit from expanded eligibility for individuals to claim a tax deduction for personal superannuation contributions up to the concessional cap.

This may also benefit farmers who make withdrawals from Farm Management Deposits and contribute these amounts as personal contributions to their superannuation.

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[1] 40 hours in a 30 day period in an income year.