

BUDGET 2013

What does it mean for your super?

There were no surprises concerning superannuation in this budget, with the Government simply confirming that it will go ahead with changes announced back in April.

These changes are aimed at saving the Government about \$900 billion over the next few years and improving the targeting of tax concessions on superannuation.

The good news for older workers is that they now have a greater opportunity to top up their superannuation. Meanwhile, low income earners – those earning less than \$37,000 a year – will continue to benefit from a tax rebate of up to \$500 on their super through the Low Income Superannuation Contribution Scheme which came into effect on 1 July 2012.

As planned, the Superannuation Guarantee rate will increase from 9 to 9.25% from 1 July 2013, reaching 12% by 1 July 2019. This reform is expected to provide an additional \$118,000 to a 30 year old worker on an average wage, retiring at age 67.

Change to contributions cap for older workers

As previously announced by the Government in April this year, the annual concessional (before tax) caps will be raised from the current level of \$25,000 to \$35,000 for older workers to provide them with more opportunities to top up their super each year and boost their retirement savings. Importantly, there are two different start dates for these higher caps, with those aged 60 and over getting a head start.

From 1 July 2013, those aged 60 and over will be able to contribute up to \$35,000 each year while, those aged 50 and over will have to wait until 1 July 2014 until their higher contribution cap limit of \$35,000 comes into effect. A \$25,000 concessional cap limit remains in place for everyone else.

The Government has estimated that the new concessional cap limits will benefit 171,000 people in 2013/14 and 363,000 people in 2014/15.

If you are planning to take advantage of these new concessional cap limits and change your contribution strategy, you will need to pay close attention to the different start dates and the interaction with your birth date to ensure you are eligible for the higher limit. Higher taxes may apply if you inadvertently exceed your cap limit. You should also be aware that the Government plans to introduce legislation for the higher caps in the current sitting of Parliament. This means the changes are not yet law.

New 15% tax on account earnings over \$100,000 in pension phase

In a bid to better target superannuation tax concessions in the post-retirement stage, the Government has introduced a 15% tax to apply to earnings on superannuation accounts over \$100,000 in the pension phase. Previously, there was no tax on earnings in the pension phase.

It is important to note that this new tax will only apply to pension income received above the \$100,000 earnings threshold.

By way of example, if you have a super pension balance of \$3 million and your pension earnings are 5% or \$150,000 a year, then you will pay the extra 15% tax on the \$50,000 above the \$100,000 threshold. Your tax liability would be \$7,500. As can be seen, this measure is aimed at retirees with very high superannuation pension balances.

The Government estimates that 16,000 individuals will be affected by the change.

Reduced tax penalties for excess contributions

The Government has reduced the tax penalties for people who exceed their concessional cap limits. From 1 July 2013, excess concessional contributions will be taxed at an individual's marginal tax rate, plus an interest charge, rather than the top marginal rate. The Government will also allow individuals to withdraw any excess contributions. This change recognises that many individuals accidentally breach their caps and gives individuals greater choice in dealing with this tax.

Reduced tax concessions for very high income earners

The Budget confirmed that those earning more than \$300,000 will have the super tax concession on their concessional (before-tax) contributions reduced from 30% to 15% (excluding the Medicare Levy). This will give those individuals an effective tax rate of 30% on their before-tax contributions, with an estimated 128,000 high income earners expected to be affected. If legislation for this measure is passed through Parliament, this tax will apply to high income earners this financial year (2012/13).

Lost Super

From 1 July 2013, the threshold definition of lost super will be raised, making it more important than ever to consolidate your super if you have multiple accounts. Visit the ATO SuperSeeker website to see if you have any lost super or consolidate your super at www.csf.com.au/consolidate-now.

Deeming rules on new superannuation account-based income streams

From 1 January 2015, normal pension income test deeming arrangements will be extended to new superannuation account-based income streams. Products held by pensioners before 1 January will be grandfathered indefinitely and continue to be assessed under the existing rules for life so no pensioner will be affected, unless they choose to change products.

Concessional tax treatment is extended to deferred lifetime annuities.

From 1 July 2014, deferred lifetime annuities will receive the same concessional tax treatment that superannuation assets which support income streams receive. This measure will provide retirees with more choice on retirement income products.

We will keep our members informed of any developments as they come to hand.

In the meantime, if you would like to discuss any of these proposals in more detail, please call us on **1300 655 002**.

To arrange a consultation with a financial planner book an appointment online

→ www.csf.com.au/financial-planning-booking-form