



# Superannuation – Special Report

12 May 2011

While many expected the Federal Budget to contain some tough taxation measures to help pay for recent natural disasters, superannuation emerged relatively unscathed in this Budget and with some minor but generally positive concessions.

In the longer term, the Treasurer said that the outlook for the economy in the years ahead is “very bright and Australians have good cause to be optimistic.”

Here is a summary of the Budget changes that effect superannuation investors:



## Minimum pension drawdown relief continues - 25% reduction for 2011/2012

The minimum annual payment amounts for superannuation pensions will be reduced by 25% for 2011/2012 financial year, and will return to normal drawdown rates in 2012/2013 and future years.

For the last three financial years, the Government has permitted a 50% reduction in the drawdown rate on superannuation pensions, to compensate retirees for the effects of the global financial crisis on their superannuation investment value.

The minimum drawdown will be reduced by 25% of the prescribed minimum drawdown rate from 1 July 2011, reverting to the full prescribed minimum rate from 1 July 2012:

<b>Minimum Superannuation Pension</b>		
<b>Percentage of your superannuation account balance</b>		
<b>Age as at 1 July</b>	<b>2011/12 with 25% reduction %</b>	<b>2012/13 and future years %</b>
Under 65	3.00	4
65 to 74	3.75	5
75 to 79	4.50	6
80 to 84	5.25	7
85 to 89	6.75	9
90 to 94	8.25	11
95 & over	10.50	14

### The Budget at a Glance - Superannuation

- Excess Contributions Tax - minor relief measure
- SMSF Annual Return Levy up from \$150 to \$180
- Government commits to raising contribution caps for over 50's
- More heat for SMSF auditors
- Pension drawdown relief extended
- Co-Contribution - freeze on eligibility limits

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### Excess Contributions Tax - \$10,000 tolerance for honest mistakes

The Government will provide eligible individuals who breach their concessional contributions cap by up to \$10,000 with a one-off option to request that these excess contributions be refunded to them. This new refund option will only apply to first time breaches from 1 July 2011.

#### What are excess contributions?

Concessional contributions to superannuation are tax deductible and taxed at 15% in the receiving fund. If you or your employer inadvertently exceed your concessional cap, an additional 31.5% is payable on the excess contribution amount. In addition to 15% tax already paid by the fund this means that the excess contributions have been taxed at 46.5%.

#### How will this measure work?

The change announced will give individuals the option to take excess concessional contributions out of their superannuation fund and have them assessed as income at their marginal rate of tax, rather than the excess concessional contributions tax rate of 31.5% (in addition to the 15% contributions tax in the fund).

The Government expects that this reform will help to reduce the number of occasions where the concessional contributions are exceeded resulting in an excess contributions tax (ECT) assessment and said it will consult with the superannuation industry on the implementation of this measure.

#### Commentary:

This change does not go far enough to address the practical issues and shortcomings of the excess contributions tax rules:

- ⇒ Compulsory SGC (9%) is included in your concessional cap, however the timing of payment is dictated by your employer, and out of your control. SGC on bonuses and commissions, particularly when calculated and paid in June each year can be impossible to plan for in advance.
- ⇒ Excess contributions tax of 46.5% also applies to non-concessional (undeducted) contributions from your private savings. No allowance for mistakes was announced for these contributions, nor was retrospectivity considered.
- ⇒ Excess concessional contributions count towards your non-concessional cap. If both are exceeded, tax of up to 93% can be paid on the excess!

The Government has ignored numerous submissions from professional and superannuation industry groups on the problems with these rules. The concession announced can be described as merely a token gesture at best.

### SMSFs and The Budget

There were a few changes buried in the Budget detail that effect Self Managed Superannuation Funds (SMSFs).

#### SMSF regulation: additional funding and increased levy

To implement the range of “Stronger Super” reforms to the SMSF sector, the Government will provide \$40.2m to the Tax Office and \$8.4m to ASIC from 2010-11 to 2014-15. The package of SMSF reforms, previously announced by the Government on 16 December 2010, are designed to improve the operation, efficiency and integrity of the SMSF sector.

The cost of this measure will be offset by an increase to the SMSF levy from \$150 to \$180 with effect from the 2010-11 income year and the introduction of SMSF auditor registration fees from 1 July 2012.

#### SMSF auditors

The Government will provide \$2.8m to ASIC to develop a facility for the online registration of approved auditors of SMSFs from 1 July 2012.

#### Minor SMSF amendment – for Minors!

Currently there is an anomaly in the SMSF rules that do not permit a parent or guardian to be a director of a company trustee of a SMSF, on behalf of a child.

The Government will amend the superannuation legislation so that where the trustee of a SMSF is a body corporate, a parent or guardian may be director of the body corporate in place of a member that is a minor.

### Concessional contribution caps to be extended – over age 50

Concessional contributions to superannuation are tax deductible and taxed at 15% in the receiving fund. These caps are currently as follows:

Age at 30 June 2010	Contribution Cap
Aged under 50	\$25,000
Aged 50 or more	\$50,000

The \$50,000 cap for those aged 50 or more was scheduled to end on 30 June 2012, reverting to \$25,000 per taxpayer, regardless of age.

In last year's Federal Budget, the Government announced a permanent but limited extension to the \$50,000 concessional cap from 1 July 2012 for those aged 50 or more, but with superannuation entitlements less than \$500,000.

Over the last 12 months, the Government has consulted with the accounting profession and superannuation industry on how this proposal could work.

During this industry consultation, the professional bodies were united in their opinion that monitoring and reporting on accumulated superannuation benefits up to \$500,000 each year would be administratively complex and potentially unworkable. Most in the industry believe that the \$50,000 cap should be available for all those aged 50 or more, regardless of their superannuation accumulated.

The Minister for Superannuation Bill Shorten and the Treasury appear to have ignored this industry advice.

Again, the Budget announcement fell short of announcing the final details of the changes, only that consultation with industry will continue and rules introduced before 1 July 2012.

### Further Information

If you have any questions on superannuation matters, please contact Sally Rorke or your Allan Hall Partner, Director or Client Manager. Our comprehensive Federal Budget summary of all business or personal tax changes is also attached.

### Other Superannuation Changes

#### Superannuation Co-Contribution indexation freeze extended

The Government provides a matching co-contribution for contributions made into superannuation out of after-tax income. The matching Government co-contribution is up to \$1,000 for people with incomes of up to \$31,920 in 2010/2011, phasing down for incomes up to \$61,920.

Normally the Government indexes these income thresholds each year to take into account cost of living increases in wages. In last year's Budget, the Government froze the eligibility thresholds until 30 June 2012. This freeze has now been extended by one more year until 30 June 2013.

#### Superannuation on payslips

The Government will ensure that employees receive information on their payslips about the amount of superannuation actually paid into their account. Employees and employers are also to receive quarterly notification from their superannuation fund if regular payments cease, with effect from 1 July 2012.

#### Greater use of TFNs – lost members

The Government will allow superannuation funds trustees to make greater use of Tax File Numbers (TFNs) to locate lost members and to facilitate the consolidation of multiple member accounts with effect from 1 January 2012.

