Superannuation Reform

April 2013

On 5 April 2013 Deputy Prime Minister and Treasurer Wayne Swan and Minister for Financial Services and Superannuation Bill Shorten announced a series of reforms to the current Superannuation system.

Minister Shorten's press release is available here.

The reforms announced include:

- Capping the tax exemption for earnings on Superannuation assets supporting income streams (superannuation pensions and annuities) at $100,000, with a concessional tax rate of 15 per cent applying thereafter
- Increasing the higher concessional contribution cap from $25,000 to $35,000 for individuals aged 50 and over
- Reforming the treatment of concessional contribution in excess of the annual cap
- Extending the normal deeming rules to superannuation account-based income streams
- Establishing a Council of Superannuation Custodians

The proposed reforms will take effect prospectively, and there will be a grandfathering in excess of 10 years. The complete reform package will around $900 million over the forward estimates and 10 billion over the next 10 years.

Capping the tax exemption for earnings on Superannuation assets supporting incomes stream

From 1 July 2014, earnings on assets supporting income streams will be tax free up to $100,000 a year for each individual in retirement. Earnings above $100,000 will be taxed at the same concessional rate of 15 per cent that applies to earnings in the accumulation phase.

Under current arrangements, all new earnings for those in retirement (such as dividends and interest) on assets supporting income streams (superannuation pensions and annuities) are tax-free. This is in contrast to earnings in the accumulation phase of superannuation, which are taxed at 15 per cent.

Special arrangements will apply for capital gains on assets purchased before 1 July 2014:

- For assets that were purchased before 5 April 2013, the reform will only apply to capital gains that accrue after 1 July 2024;
- For assets that are purchased from 5 April 2013 to 30 June 2014, individuals will have the choice of applying the reform to the entire capital gain, or only that part that accrues after 1 July 2014; and
- For assets that are purchased from 1 July 2014, the reform will apply to the entire capital gain.

The $100,000 threshold will be indexed to the Consumer Price Index (CPI), and will increase in $10,000 increments. Assuming a conservative estimated rate of return of 5 per cent, earnings of $100,000 would be derived from individuals with around $2 million in superannuation.

This reform will not affect the tax treatment of withdrawals. Withdrawals will continue to remain tax-free for those aged 60 and over, and face the existing tax rates for those aged under 60.

Treasury estimates that around 16,000 individuals will be affected by this measure in 2014-15, which represents around 0.4 per cent of Australia's projected 4.1 million retirees in that year.

Increasing the higher concessional contribution cap from $25,000 to $35,000 for individuals aged 50 and over

The Government will increase the current higher concessional contribution cap from an indexed $25,000 to a non-indexed $35,000 and bring forward the start date for the new higher cap to 1 July 2013 for people aged 60 and over. Individuals aged 50 and over will be able to access the higher cap from the current planned start date of 1 July 2014.

This will allow those who have not had the benefit of the Superannuation Guarantee for their entire working lives to have the ability to contribute more to their superannuation as their retirement age approaches.

The general concessional cap is will remain indexed and is expected to reach $35,000 from 1 July 2018.

Reforming the treatment of concessional contribution in excess of the annual cap

Under the current arrangements, concessional contributions that are in excess of the annual cap are effectively taxed at the top marginal tax rate (46.5 per cent) rather than the normal rate of 15 per cent. This mainly affects individuals with an income below the top marginal tax rate.

Under the proposed reforms the Government will tax excess concessional contributions at the individual's marginal tax rate, plus an interest charge to recognise that the tax on excess contributions is collected later than normal income tax.

In addition the Government will allow all individuals to withdraw any excess concessional contributions made from 1 July 2013 from their superannuation fund. These rules will ensure that individuals are taxed on excess concessional contributions in the same way as if they had received that money as salary or wages and had chosen to make a non-concessional contribution.

Extending the normal deeming rules to superannuation account-based income streams

Superannuation account-based income streams are a form of investment that provides the holder with a tax-free retirement income stream and flexible access to their capital.

The Government will extend the normal deeming rules to superannuation account-based income streams for the purposes of the pension income. Thus standard pension deeming arrangements will apply to new superannuation account-based income streams assessed under the pension income test rules after 1 January 2015.

However, all products held by pensioners before 1 January 2015 will be grandfathered indefinitely and continue to be assessed under the existing rules for the life of the product so no current pensioner will be affected, unless they choose to change products.

This particular part of the Government's reform is a recommendation of the Pension Review and the Australia's Future Tax System Review.

Establishing a Council of Superannuation Custodians

The reforms announced 5 April 2013 will establish a Council of Superannuation Custodians to ensure that any future changes are consistent with an agreed Charter of Superannuation Adequacy and Sustainability.

The Council will be charged with assessing future policy against the Charter and providing a report to be tabled in Parliament.

Membership of the Council will be finalised following public consultation, but it is expected to comprise eminent representatives drawn from the community, industry and regulators.
To assist with industry consultation, it is proposed to establish a Charter Group in the coming weeks to help develop the Charter and establish the Council.

Minister Shorten's press release on the establishment of the Council is available here.