Newsletter

2006 Superannuation Changes

And

Implications for Family Law

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Abstract

The 2006 budget announced the most far-reaching super changes for more than 20 years. The central theme was simplification of the tax payable when a benefit is claimed. Those over 60 will pay no tax on benefits paid from a taxed super fund. There were also changes in the amounts that can be contributed to super. Family law implications are addressed

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Main Themes

- Control of superannuation passes from benefits to contributions. The challenge is now to get contributions into superannuation to take advantage of tax-free benefits.
- Superannuation is now a virtual flat tax regime that will reward the wealthy, particularly those who can save over a reasonable period of time.
- The changes should encourage people to remain in the workforce to 60.
- Superannuation could become the preferred investment vehicle replacing negative gearing on property.

Overall Impact

- Over 60's with large super will be substantially better off.
- The changes favour the well off with lower income earners making little gain.
- Self-employed are significantly better off.
- There is no longer any taxation incentive for taking a pension, although earnings on as-

sets supporting pensions will still be exempt from tax.

- Larger golden handshakes will be taxed more heavily and employer payments can no longer be rolled into super to reduce tax.
- The strategy of putting in large amounts of super late in life will no longer be possible.
- The tax effectiveness of contribution splitting and spouse accounts is significantly diminished.
- More assets can be held before the age pension ceases, however, the current 50% asset test exemption for complying pensions will not apply to pensions commenced from 20 September 2007.
- Financial planning industry will have a lot less work.

Benefit Tax Changes

- From 1 July 2007, all lump sums and pensions paid to persons over 60 (inc those currently being paid) will be tax free if paid from a taxed superannuation scheme.
- For untaxed schemes (mostly Government schemes), tax payable has been substantially reduced. (see example later)
- Those less than 60 now only have 2 tax components to their lump sum benefits, - an exempt and post 83 component. Previously, there were up to 8 components.
- RBLs will be abolished – now no limits on tax free superannuation payouts.

Changes to Contributions Limits

- Current age based limits will be abolished.
- No limit on contributions but those in excess of $50,000 pa will be taxed on entry to the fund at the top marginal tax rate (now 45%). Those currently aged over 50 will have a limit of $100,000 pa for five years.
- Limit on undeducted contributions of $150,000 to be applied from budget night. See latest announcement from Treasurer as 3 year averaging applies.
- Tax on deductible contributions will go from 15% to 45% if no tax file number is supplied.

Other Changes

- Deductions will be available up to 75 if work test met.
- No compulsory payment of benefits at age 65 and monies can stay in super indefinitely.
- Maximum annual limits on pensions have been removed (except for Transition to Retirement pensions) but minimum payments still prescribed.

Family Law Implications

- Non-member spouse accounts will be established faster. The time for super funds to process requests to transfer funds has been reduced from 90 days to 30 days.
- Self-employed will now have a greater capacity to re-establish their superannuation account after any split. Self-employed will receive a deduction up to $50,000 pa up to age 75. Previously, for a $50,000 contribution, only $38,750 was deductible.
- The most significant change is that family law valuations, which are gross of tax, will now be much closer to the net of tax figure. Table illustrates:

Lump Sums

	taxed source	untaxed source (selected Govt funds)
Family Law Value **gross**	$500,000	$500,000
Family Law Value **net**	$500,000	$417,500
tax payable now	$61,500	$138,500
tax 1 July 2007 (60 and over)	$0	$82,500
Tax savings	**$61,500**	**$56,000**

Pensions

	taxed	untaxed
Pension per annum	$35,000	$35,000
current tax regime		
(using 1 July 2006 rates)		
$0 to $6000	$0	$0
$6,000 to $25,000	$3,800	$3,800
$25,000 to $35,000	$3,000	$3,000
total tax payable on		
$35,000 pension	$6,800	$6,800
Rebate for taxed pension	$5,250	na
Net tax payable	$1,550	$6,800
Net tax payable if over 60		
from July 2007	$0	
10% tax rebate		$3,500
Tax payable	$0	$3,300
Tax savings per annum	$1,550	$3,500

Note that where the pension is paid before age 60, there still could be a significant amount of embedded tax in the FLV. Untaxed funds are Government super funds (but not all).

Some Implications by Age Group

Under 45 – will perceive super to be a desirable tax haven, increasing super contributions.
Under 55 – ceiling on super contributions will hurt. Not possible to make up for lost time. Salary sacrifice capped at $50,000 less employer contributions. Golden handshakes are relatively unattractive.
55 to 60 – big issue is whether to defer and avoid tax (or reduce if from an untaxed scheme) by waiting to 60. Lump sum tax heavily penalised in this period. Annuity would lessen tax burden considerably.
60 to 65 – will enjoy tax-free or tax reduced benefits. Capital gains may be largely discretionary through super contributions.
65 to 75 – can withdraw super any time and re-contribute with a tax deduction if work test met. (Gainfully employed for 40 hours in any 30 consecutive days)
75 plus – can leave monies in super. When die, monies pass tax free to dependents, otherwise, 16.5%

Some Implications by Income Group

Low Income – little disposable income to take advantage of the enhanced super contributions. When benefit is paid, no change as likely to be under existing low tax threshold.
Middle Income – will gain from zero tax regime when over 60. Self employed better off. Will value being able to withdraw lump sums at any time from a pension.
Higher income – last minute super top ups not possible. Golden handshakes are out. Substantial gains from tax free benefits and no RBLs.

Note the above are intentions only. Proposals are subject to a consultative process.

Please give me a call or send me an email if you have any questions.

Further Information

Link to the 2006 budget discussion paper on superannuation

Link to the Treasurer's press release of June 2006

Feedback

Your views on this newsletter would be most appreciated. Other newsletters can be found at www.pgsSuperannuation.com.au

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