

INTRODUCTION OF SUPERANNUATION SIMPLIFICATION BILLS

With reference to our bulletin of 12 May 2006 – on the Federal Government’s proposals to simplify the superannuation system and its taxing arrangements, the following points of update may be noted:

- **9 May 2006** - Proposals announced with *Federal Budget Statement*.
- **13 June 2006** - Modified proposals announced for transitional period.
 - Post-tax contributions made between 1 July 2005 and Budget night (9 May 2006) would not count towards the \$150,000 annual cap.
 - Proposed averaging arrangements, so that a person can contribute \$450,000 within a 3-year period – including in one year. First cap year to be the period 10 May to 30 June 2006.
 - Removal of payment rule for people aged 65 and over, to be brought forward from 1 July 2007 to 10 May 2006.
 - This would allow people who are over 65 and no longer working and people aged 75 to defer cashing their superannuation benefits to take advantage of the new tax regime and flexible draw down rules applying from 1 July 2007.
- **9 August 2006** - Deadline for community feedback comments and submissions.
 - AFSA made a submission on 25 May 2006.
- **6 September 2006** – Government announced its final decision on superannuation proposals, after taking into account community feedback and submissions. Further modified proposals included:
 - Subject to applicable work test, post-tax contributions up to \$1 million will be allowed between 10 May 2006 and 30 June 2007.
 - \$150,000 annual limit on post-tax contributions to now commence from 1 July 2007, with \$450,000 cap under 3-year averaging rule.
 - AWOTE-indexation of the contribution caps.
- **7 December 2006** – Introduction of package of Bills into Lower House.
 - Refer summary of final proposals in Appendix.

As may be already noted, the superannuation simplification proposals are expected to have far-reaching implications for the approach to savings, investment advice and planning, fund administration and systems, communication and education, employer attention, etc.

However, it should be remembered that superannuation is about savings to fund a person in retirement. It is *not* designed to be an estate planning device, and tax will continue to apply on death benefits paid to persons others than ‘dependants’ – and such tax is in addition to tax on superannuation contributions and earnings.

The Australian Taxation Office has commenced a process of consultations with a limited number of industry and regulatory representatives, designed to work through the proposed measures contained in the Bills – with a view to helping the implementation and on-going administration of the proposed new taxing arrangements.

AFSA is privileged to be an invited participant in this consultative group, and would welcome timely input and feedback from the friendly society industry (and their professional advisers) on particular administration and implementation issues or concerns over the coming weeks and months.

Passage of the Bills (in their current form) is subject to Parliament. It is possible that they may be referred to a Senate Committee for review and report, and that enactment (with or without amendments) may not occur until closer to the end of the first-half of calendar 2007.

The following proposed effective dates of operation are also worth noting:

- 10 May 2006 - Limits to apply on post-tax contributions.
- 1 July 2007 - Most of the simplification measures to apply from this date.
- 20 September 2007 – Revised assets test pension arrangements to apply.

Please forward any feedback to the AFSA Secretariat at jane.southwell@afsa.com.au.

Tony C Jacob
Chairman
AFSA Tax Committee

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An AFSA bulletin does not constitute advice. Affected societies and their investors are encouraged to seek and obtain appropriate, timely and independent professional advice prior to making any decisions on the basis of its contents – and to help meet their respective obligations under relevant laws.

APPENDIX**PROPOSED SUPERANNUATION SIMPLIFICATION MEASURES
A GENERAL SUMMARY**

1. Superannuation benefits paid from a taxed fund, either as a lump sum or a pension, will be tax-free for people aged 60 and over.
2. Tax paid on superannuation benefits paid from an untaxed fund for people aged 60 and over will be lower.
3. Reasonable benefit limits (RBLs) will be abolished.
4. Employers will be allowed to claim a full tax deduction for contributions to superannuation on behalf of employees under the age of 75.
5. The self-employed will be able to claim a full tax deduction for contributions to superannuation up to age 75.
6. The level of contributions to superannuation receiving concessional tax treatment will be limited to \$50,000 per person per financial year.
7. Personal superannuation contributions from an individual's post-tax income (known as non-concessional contributions) will be to \$150,000 per financial year or \$450,000 for a three year period.
8. Concessions on large employment termination payments (ETPs) will be limited, as the RBLs are being abolished.
9. Superannuation fund reporting requirements will be streamlined.
10. Access to the Government co-contribution will be extended to include the self-employed.
11. Regulation of self-managed superannuation funds (SMSFs) will be improved through the application of new administrative penalties for late returns and false statements.
12. The pension assets-test taper rate will be amended for age pension, service pension and other means-tested pension recipients.
 - Will be reduced from \$3 to 1.50 - for every \$1,000 of assets above the relevant threshold.
 - The 50 per cent assets-test exemption will be removed for 'complying' income streams purchased from 20 September 2007, as retaining this concession alongside the reduced assets-test taper would create scope for wealthier individuals to access the age pension.

13. Certain limits on contributions and tax thresholds will be indexed.
14. Taxes to be set on excess concessional and non-concessional contributions.
15. The provisions dealing with the taxation of superannuation in the *Income Tax Assessment Act 1936* are being rewritten and will be consolidated into the *Income Tax Assessment Act 1997*.

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