

## Changes to Super



The changes to super from 1 July 2007 help to make super easier to understand, improve incentives to work and save for your future and give you more flexibility in how you can draw on your super savings when you retire. You will find information about the changes under the headings below. Be aware that the information presented here is a guide only. Personal circumstances and super fund returns will vary, so we recommend that you seek appropriate professional advice before making decisions about your super.

### **Tax-free benefits for people aged 60 and over**

For most people aged 60 and over, who receive super benefits from a taxed source, payment of a benefit as a lump sum or income stream (such as a pension) will be tax-free.

If your super comes from a source that is not taxed (such as public service super funds), your benefits will continue to be taxed when you receive them. However, you may be entitled to a tax offset that will reduce the tax payable on these benefits.

Reasonable benefit limits will be abolished for benefits received from 1 July 2007. These currently limit the benefits you can receive at a concessional tax rate from your super.

### **Limits on concessional contributions to super**

From 1 July 2007, concessional contributions made to super will be subject to an annual cap of \$50,000. Concessional contributions include employer contributions (including contributions made under a salary sacrifice arrangement) and personal contributions claimed as a tax deduction by a self-employed person. The age-based limits on deductions that currently exist for these contributions will no longer apply.

You will be taxed on concessional contributions over the \$50,000 cap at a rate of 31.5%. This is on top of the 15% tax paid by the fund. You can ask your super fund to release money to pay this excess contributions tax.

Between 1 July 2007 and 30 June 2012, a transitional concessional contributions cap will apply. During this time, the annual cap will be \$100,000 for people aged 50 or over.

### **Limits on non-concessional contributions to super**

From 1 July 2007, non-concessional contributions made to super will be subject to an annual cap of \$150,000.

Non-concessional contributions include personal contributions for which you do not claim an income tax deduction.

There will be a 'bring-forward' option available, meaning that people under 65 years of age can make non-concessional contributions of up to \$450,000 over a three-year period.

You will be taxed on non-concessional contributions over the cap at the rate of 46.5%. You will be required to ask your super fund to release an amount that is equal to the tax liability.

### **For the self-employed**

If you are self-employed you may be able to claim a full tax deduction for your super contributions.

You may also be eligible for the Super Co-contribution on contributions that you do not claim a deduction for.

### **Your tax file number and your super fund**

From 1 July 2007, employer contributions made to new super accounts without a tax file number (TFN) will be taxed an additional 31.5%. This is on top of the 15% tax paid by the fund. For existing accounts, the additional 31.5% will generally be payable on all contributions once the contributions for the year reach \$1,000. For accounts created after 30 June 2007, the additional 31.5% will be payable regardless of the amount contributed. To avoid this you must provide your TFN to your super fund.

If your fund pays the additional tax and you provide your fund with your TFN, your fund may be entitled to claim a tax offset. Your fund will credit the tax offset to your account.

Super funds will not be able to accept certain contributions if you have not provided your TFN. The contributions your fund will have to reject include contributions you make and contributions your spouse makes to your super fund for you.

### **Changed unclaimed super reporting for private sector super funds**

Unclaimed money from private sector super funds will have to be paid to the Australian Government (except for state and territory government superannuation schemes).

Unclaimed super from private sector schemes is required to be paid to us, rather than to their state or territory authority in respect of the half-year ending on 30 June 2007 and later periods.

The reporting requirements for each half-year period are as follows:

- 1 July 2006–31 December 2006, funds must lodge their reports to their state or territory authority by 30 April 2007, and
- 1 January 2007–30 June 2007, funds must lodge their reports and forward unclaimed money to us by 31 October 2007.

## Other important changes

Most employment termination payments (previously known as eligible termination payments) will no longer be able to be rolled over into super

➤ For more information refer to:

- [Employment termination payments](#) (NAT 70643), and
- [Employment termination payments transitional arrangements](#) (NAT 70644).

Reporting for self managed super funds will be streamlined, and there will be new penalties for late lodgment.

Death benefits will be affected.

Until the changes start on 1 July 2007, some transitional arrangements will apply.

➤ For more information about these arrangements, refer to the following fact sheets:

- [Selling or transferring an asset](#) (NAT 70642)
- [Employment termination payments – transitional arrangements](#) (NAT 70644)
- [Transitional cap of \\$1 million on non-concessional contributions](#) (NAT 70648), and
- [Exclusion from the transitional non-concessional contributions cap](#) (NAT 70645).

## ➤ More information

To obtain a copy of our publications or for more information:

- visit our website at [www.ato.gov.au](http://www.ato.gov.au)
- phone **13 10 20**, or
- write to us at

PO Box 297  
ADELAIDE SA 5001

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service on **13 14 50** for help with your call.

If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**. If you do not have access to TTY or modem equipment, phone the Speech to Speech Relay Service on **1300 555 727**.

## **Changes to super - what you need to know**

General information about the changes to super coming into effect from 1 July 2007. There are some changes that take effect from 10 May 2006.

### **Will there be a limit on the amount of contributions that can be made to my super funds?**

Strictly speaking there are no limits to the amounts that can be contributed but practically the change in tax rates above a certain amount creates a limit. It is this practical limit which is referred to in these questions and answers.

### **About concessional contributions**

#### **Will there be a limit on the amount of concessional contributions that can be made to my super funds?**

From 1 July 2007 the limit on concessional contributions is \$50,000 a year for those less than 50 years of age. This limit is called the concessional contributions cap.

You will be taxed on concessional contributions over the \$50,000 cap at a rate of 31.5%. You can ask your super fund to release money to pay this excess contributions tax.

➤ For more information see [Changes to super - overview](#)

#### **What are concessional contributions?**

Concessional contributions include employer contributions (including contributions made under a salary sacrifice arrangement) and personal contributions claimed as a tax deduction by a self-employed person.

Concessional contributions are usually included in your fund's assessable income. Concessional contributions and the earnings on them are assessable to the fund. The fund generally pays tax on its taxable income at 15%.

#### **I'm over 50, what is my limit for concessional contributions?**

The limit on concessional contributions is \$100,000 a year between 1 July 2007 and 30 June 2012 for those aged 50 or more.

You will be taxed on concessional contributions over the \$100,000 cap at a rate of 31.5%. You can ask your super fund to release money to pay this excess contributions tax.

#### **What happens if I turn 50 during the transition period?**

If you turn 50 between 1 July 2007 and 30 June 2012 you can also make use of the \$100,000 cap. For example, a person turning 50 on 1 February 2011 will be able to contribute \$100,000 in the 2010–11 and 2011–12 financial years.

### **Will the concessional contributions cap be indexed?**

Yes. Indexation of the \$50,000 concessional contributions cap will be based on Average Weekly Ordinary Time Earnings (AWOTE), but will increase in \$5,000 increments for simplicity. The cap of \$100,000 that applies for those aged 50 or more will not be indexed.

### **About contribution deductions**

#### **Will employers still be able to claim a tax deduction for superannuation contributions?**

Employers will still be able to claim a tax deduction for contributions made on behalf of their employees. From 1 July 2007 there is no limit on the amount an employer can deduct as the age based limits on deductions for these contributions will no longer apply.

They will now be able to claim the deduction for employees who are under the age of 75 (increased from the previous age of 70).

Employers will only be able to claim a tax deduction for contributions made on behalf of employees aged 75 and over, if those contributions are required under an industrial award, determination or notional agreement preserving state awards.

#### **I am self employed. Will I still be able to claim a tax deduction for superannuation contributions?**

Yes. From 1 July 2007 you will be able to claim a full tax deduction for superannuation contributions made until you turn 75 as long as you meet the eligibility criteria. The age based limits on deductions that currently exist for these contributions will no longer apply.

### **About non-concessional contributions**

#### **What will be the limit on non-concessional contributions?**

From 1 July 2007, non-concessional contributions made to super will be limited to \$150,000 a year. This is called the non-concessional contributions cap.

You will be taxed on non-concessional contributions over the limit at the rate of 46.5%. You must ask your super fund to release money to pay this tax.

- ❗ People under 65 can make non-concessional contributions of up to \$450,000 over a three-year period.
- ❗ The non-concessional contributions cap will always be three times the

concessional contributions cap.

### **What are non-concessional contributions?**

Most commonly, non-concessional contributions are the contributions you make for which a tax deduction is not claimed. Unlike employer contributions, the person who makes the contribution is generally not entitled to a tax deduction for that contribution. They are often referred to as undeducted or 'after-tax' contributions. The contributions listed below are non-concessional contributions. They include, but are not limited to:

- personal contributions for which an income tax deduction is not claimed
- contributions a person's spouse makes to their super fund account, and
- transfers from foreign superannuation funds (excluding amounts included in the fund's assessable income).

### **About eligible termination payments**

#### **Will there be changes to eligible termination payments?**

Yes. From 1 July 2007, eligible termination payments will either be employment termination payments or superannuation benefits. Superannuation benefits are payments from superannuation funds. An employment termination payment is a lump sum payment made in consequence of the termination of employment. The income tax treatment of both types of payments will change. Employment termination payments made on or after 1 July 2007 won't be able to be rolled over into super unless you meet the requirements of the transitional arrangements.

 For more information see [Employment termination payments](#) and [Employment termination payments – transitional arrangements](#).

### **Moving to the new arrangements**

There are a number of issues and opportunities you might need to consider during the transitional period between 10 May 2006 and 30 June 2007.

#### **What is the \$1 million transitional cap on non –concessional contributions?**

There is a cap of \$1 million on non-concessional contributions during the transitional period. This transitional cap includes all non-concessional contributions made between 10 May 2006 and 30 June 2007.

#### **What if I exceed the \$1 million cap during the transitional period?**

The rules about excess transitional non-concessional contributions and what you need to do are explained in the fact sheet - [Transitional cap of \\$1 million on non-concessional contributions](#).

## **Do I have to pay capital gains tax (CGT) if I sell my investment property and put the money into super?**

If the sale of your investment property returns a capital gain you will need to take into account the possibility of paying CGT.

## **Can I transfer my investment property into my self managed super fund?**

No. You **cannot** transfer or sell your residential investment property to your self managed super fund.

In some circumstances you may be able to transfer real property used exclusively in a business to your self managed super fund. The property must be acquired by the self managed super fund at market value. You may have to pay CGT and the fund may have to pay stamp duty on the transfer of ownership.

➤ See the fact sheet [Selling or transferring assets](#) for more information.

## **Do I have to pay CGT if I sell my managed funds or shares and put the money into super?**

If the sale of your managed funds or shares returns a capital gain you will need to take into account the possibility of paying CGT.

## **Can I transfer my managed funds or shares into my self managed super fund?**

Yes, in some cases. For example, you can transfer listed shares and units in managed funds to your self managed super fund if they are listed on the Australian stock exchange (or the stock exchanges of some other countries), or if your investment is in a widely held unit trust. The units or shares must be acquired by the self managed super fund at market value. You may have to pay CGT and the fund may have to pay stamp duty on the transfer of ownership.

## **Can I claim a tax deduction for interest on a loan if I borrow money to contribute to superannuation?**

No. Interest on money borrowed to make personal superannuation contributions is not tax deductible.

## **I am an employer. Can I claim a tax deduction for interest on a loan if I borrow money to make super contributions for my employees?**

Yes. You can claim a deduction for interest on money you've borrowed to make superannuation contributions for your employees.

## **I own a small business. How much can I put into super now?**

Under transitional arrangements you can contribute up to \$1 million of non-concessional contributions to your super fund between 10 May 2006 and 30 June 2007.

- ❗ Contributions of up to \$1 million derived from the disposal of certain small business assets can be excluded from the \$1 million transitional non-concessional contributions cap, so you may be able to contribute a further \$1 million in the transitional period.
- For more information - see the fact sheets [Selling or transferring assets](#) and [Exclusion from the transitional non-concessional contributions cap](#).

## **Self Managed Superannuation Funds (SMSFs)**

### **What will be different for SMSFs?**

Changes include:

- increased Tax Office compliance activity
- improving trustee awareness of their responsibilities
- clearer auditor obligations
- administrative penalties for late returns and false statements
- streamlined reporting requirements, and
- an increase in the supervisory levy from \$45 to \$150.

### **Taxation of benefits from 1 July 2007**

#### **How will superannuation benefits be taxed from 1 July 2007?**

For most people aged 60 or over who receive super benefits from a taxed source (this is most funds) that payment of a benefit as a lump sum, or income stream (such as a pension) will be tax-free.

#### **I am a retired public servant. Will my superannuation pension be tax-free?**

No. The benefits of many retired public servants are paid from superannuation schemes that don't pay tax or from a Government's revenue. These sources are sometime called untaxed sources. If your super benefit comes from an untaxed source, it will be taxed when you receive it regardless of your age. However, if you are aged 60 or over when you receive a superannuation pension, you may be entitled to a 10% tax offset that will reduce the tax payable.

#### **Will I have to lodge an income tax return?**

When you are 60 years or over, you don't have to declare tax-free income paid from taxed sources of superannuation. If your only source of income is superannuation benefits from a taxed source you won't need to lodge an income tax return.

You **will** have to lodge an income tax return if you have income from other sources, including from investments or untaxed superannuation sources, such as some public service super funds.

### **Is there a minimum or maximum amount I have to withdraw from super each year?**

Your fund may allow you to choose the amount of your superannuation income each year. Once you start a pension, a minimum amount is required to be paid as a benefit each year to ensure your capital is generally drawn down over time. There is no maximum amount other than the balance of your super account.

The following table shows minimum annual pension for each age group:

<b>Age</b>	<b>Minimum withdrawal as a % of the account balance</b>
Under 65	4%
65–74	5%
75–79	6%
80–84	7%
85–89	9%
90–94	11%
95 or more	14%

### **Do I have to cash out my super when I reach a certain age?**

No. The superannuation law will no longer require your benefit to be paid at a certain age. However, your payments are subject to the rules of your particular fund. The requirements for compulsory payment of benefits to members over age 65 who do not meet the work test, and compulsory payment from age 75 have been removed from the law.

### **What is happening to reasonable benefit limits?**

Reasonable benefit limits will be abolished from 1 July 2007. You will still need to include amounts exceeding your reasonable benefit limit as excessive amounts in your tax return for benefits received before 1 July 2007.

### **Do "transition to retirement" measures still apply?**

Since 1 July 2005 people at 'preservation age' have been able to take their benefits as a non-commutable income stream while they are still working.

The transition to retirement rules will be amended to include pensions meeting the new minimum standards. From 1 July 2007 transition to retirement income streams will allow no

more than 10% of the account balance (at the start of each year) to be withdrawn in any one year. The existing non-commutability rules for income streams commenced under the transition to retirement measure will continue to apply. Income streams started **before** 1 July which comply with the transition to retirement rules at the time, will satisfy the new requirements.

### **When can I start taking my superannuation?**

When you reach preservation age and retire, or turn 65, even if you have not retired from the workforce, you can access your superannuation. The 'preservation age', however, will increase from 55 to 60 between the years 2015 and 2025.

### **Will the new rules affect complying income streams started before 1 July 2007?**

No, you still won't be able to commute them into a lump sum. The payments will be tax-free when paid from a taxed source to a person aged 60 or over.

### **Age and service pensions**

#### **What are the changes to the assets test taper rate for age and service pensions?**

The pension assets test taper rate will be halved from 20 September 2007 so that pension recipients will lose \$1.50 per fortnight, (rather than \$3 a fortnight), for every \$1,000 of assets over the relevant threshold. The assets test exemption for purchased complying income streams will be removed for income streams purchased on or after 20 September 2007.

- Visit the Centrelink website [www.centrelink.gov.au](http://www.centrelink.gov.au) or the Department of Veterans' Affairs website at [www.dva.gov.au](http://www.dva.gov.au) for more information.

### **Tax file numbers and superannuation**

#### **What happens if my fund doesn't have my tax file number?**

From 1 July 2007 it is important that your super fund has your TFN. If your super fund does not have your TFN:

- your fund may have to pay additional income tax on certain contributions (most commonly employer contributions and personal contributions claimed as an income tax deduction)
- your fund may not be able to accept certain other contributions (most commonly your personal contributions not claimed as an income tax deduction), and
- you may miss out on the Super Co-contribution.

- See the fact sheet [Tax file numbers and superannuation](#).

## **Being self-employed**

### **I'm self-employed. How will the rules change for me?**

You may be able to claim a full income tax deduction for personal contributions to superannuation until you turn 75 as long as you meet the eligibility criteria. From 1 July you may be able to obtain the Super Co-contribution, and may also benefit from the extension of concessions on certain invalidity payments.

### **Where can I get more information about superannuation and other money management issues?**

The Australian Securities and Investments Commission (ASIC) which provides free financial tips and safety checks, including superannuation calculators and information about retirement income products.

➤ Contact ASIC by phone on 1300 300 630 or web at [www.fido.gov.au](http://www.fido.gov.au)

The Financial Literacy Foundation which aims to interest people in starting to learn about how to get a handle on financial matters.

➤ Check out their website at [www.understandingmoney.gov.au](http://www.understandingmoney.gov.au)