

# HR & Tax Alert



Quality In Everything We Do

## Australia - Superannuation simplification proposals clarified

October 2006

### Executive summary

The Federal Treasury has clarified elements of its superannuation simplification proposals in a 28 page announcement released recently. This announcement addresses some ambiguities in the original superannuation proposals outlined in the Federal Budget and provides further details regarding the implementation of the Budget changes.

*The alert is for general information purposes and is confined to taxation issues which is only one of the matters that need to consider when making a decision about investments. Where appropriate, consideration should be given to taking advice from a licensed adviser, before making a decision about investments. We are not required to hold an Australian Financial Services License to provide with this general information.*

### Background

In May 2006, proposals to substantially simplify Australia's system of taxing retirement savings were announced in the Federal Government's Budget. Key proposals were:

- changes to the taxation of superannuation benefits meaning that most payments from complying schemes to individuals aged at least 60 will now be tax-free;
- the removal of restrictions on when and how an individual must start to draw their pension;
- the removal of the age-based deduction limits for employers so that employer contributions to superannuation schemes are 100% deductible;
- the introduction of contribution caps which will drive the tax treatment of the contributions in the hands of the superannuation fund; and
- the removal of the reasonable benefit limit (RBL) regime.

Recently the Government's response to extensive public consultation on the proposals was released.

Importantly, the Government has confirmed its intention to remove the age-based deduction limits for all employers. As a result, employers will no longer have to apply any deduction limits to their superannuation contributions and will be able to

claim any superannuation contributions made on behalf of employees in full for Corporation Tax purposes. Instead, the tax treatment applying to contributions in the hands of the superannuation fund will be altered. Full details of the proposed superannuation changes are in the Ernst & Young Australia's Super Insights – May 2006 and September 2006. To view these Super Insights, visit [www.ey.com/au](http://www.ey.com/au)

### Contributions to Superannuation Funds

As indicated in the original Budget release, as the RBL have been withdrawn, superannuation benefit payments to individuals age 60 or over will be tax-free. However the Government will limit the tax relief on contributions to superannuation schemes from 1 July 2007 with some restrictions applicable from 9 May 2006.

A limit on contributions made from post-tax income (or 'undeducted' contributions) of AUD 150,000 per year was originally to be effective from 9 May 2006. In June 2006 the Government further clarified this cap by indicating that individuals could average this cap over three years in order to contribute a larger one-off amount from post-tax sources. Therefore, an undeducted contribution of up to AUD 450,000 could be made in one year with no further undeducted contributions for the subsequent two years.

Following the consultation process, the Government has amended its position to allow up to AUD 1 million of undeducted contributions to be made during the transition period from 10 May 2006 to 30 June 2007. From 1 July 2007 the undeducted contribution cap of AUD 150,000 per annum or AUD 450,000 for three years on a "bring forward" basis will apply. Contributions by individuals aged 65 or over will be limited to AUD 150,000 per annum only.

A further limit of AUD 50,000 will apply to pre-tax (or 'deductible') contributions, and these contributions within this limit will be subject to a maximum 15% contributions tax rate. For individuals aged 50 or above between 1 July 2007 and 30 June 2012, this limit will be AUD 100,000. Any contributions

