Overview of superannuation system changes

The changes to the super system, announced by the government in the 2016–17 federal budget, have now been passed by Parliament. These changes were designed to improve the sustainability and fairness of Australia's superannuation system and most of the changes will commence from July 1, 2017.

Spouse tax offset

From 1 July 2017, the spouse's income threshold will be increased from $13,800 to $40,000. The current 18% tax offset of up to $540 will remain as is and will be available for any member, whether married or de facto, contributing to a recipient spouse whose income is up to $37,000. As is currently the case, the offset is gradually reduced for income above this level and completely phases out at income above $40,000.

Members will not be entitled to the tax offset when the spouse receiving the contribution has exceeded their non-concessional contributions cap for the relevant year, or has a total superannuation balance equal to or exceeding the transfer balance cap immediately before the start of the financial year in which the contribution was made.

Personal super contributions deduction

The government will introduce a Low Income Superannuation Tax Offset (LISTO), which will replace the Low Income Superannuation Contribution (LISC) policy that has been repealed from 1 July 2017. From that time, eligible members with an adjusted taxable income up to $37,000 will receive a LISTO contribution to their super fund. The LISTO contribution will be equal to 15% of their total concessional (pre-tax) super contributions for an income year, capped at $500.

Low income super tax offset

From 1 July 2017, the government will introduce a $1.6 million cap on the total amount that can be transferred into the tax-free retirement phase for account-based pensions. This will include new obligations such as reporting information to Tax Office when fund members start or commute retirement phase income streams.

The general transfer balance cap will be indexed in $100,000 increments in line with CPI. Indexation will be applied proportionally where a member is a retirement phase income stream recipient, but has not at any time met or exceeded their cap.

Introducing a transfer balance cap of $1.6 million for pension phase accounts

From 1 July 2017, the government will introduce a $1.6 million cap on the total amount that can be transferred into the tax-free retirement phase for account-based pensions. This will include new obligations such as reporting information to Tax Office when fund members start or commute retirement phase income streams.

The general transfer balance cap will be indexed in $100,000 increments in line with CPI. Indexation will be applied proportionally where a member is a retirement phase income stream recipient, but has not at any time met or exceeded their cap.

Reduction of Division 293 income threshold to $250,000

Currently members with income and concessional super contributions in excess of $300,000 will trigger a Division 293 assessment.

From 1 July 2017, the government will lower the Division 293 income threshold to $250,000. A member with income and concessional super contributions, exceeding the $250,000 threshold will have an additional 15% tax imposed on the amount over the threshold up to the total amount of concessional contributions not exceeding their concessional contributions cap.

Lowering the non-concessional (post-tax) contributions cap to $100,000 per annum

From 1 July 2017, the government will lower the annual non-concessional (after tax) contribution cap from $180,000 to $100,000 per year. This will remain available to members between 65 and 74 years old if they meet the work test. The cap will be indexed in line with the concessional contributions caps.

Members with a total superannuation balance greater than or equal to the general transfer balance cap ($1.6 million for the 2017-18 financial year) at the end of 30 June of the previous financial year, and makes non-concessional contributions, will have excess non-concessional contributions.

If you are under 65, you may be able to make non-concessional contributions of up to three times the annual non-concessional contributions cap in a single year. If eligible, when you make contributions greater than the annual cap, you automatically gain access to future year caps. This is known as the 'bring forward' arrangement.

From 1 July 2017, the non-concessional contributions cap amount that you can bring forward and whether you have a two or three year bring forward period will depend on your total superannuation balance. Your total superannuation balance is determined at the end of 30 June of the previous financial year in which the contributions that triggered the bring-forward, were made.

For the 2017-18 year the following table represents the bring forward arrangement for the first year.

2017-18 Bring forward period

Total superannuation balance on 30 June 2017	Non-concessional contributions cap for the first year	Bring forward period
Less than $1.4 million	$300,000	3 years
$1.4 million to less than $1.5 million	$200,000	2 years
$1.5 million to less than $1.6 million	$100,000	No bring forward period, general non-concessional contributions cap applies
$1.6 million	Nil	N/A

Transitional period

If an individual has made a non-concessional contribution in 2015-16 or 2016-17 financial year and that triggers the bring forward, but has not fully used their bring forward before 1 July 2017, transitional arrangements will apply so that the amount of bring forward available will reflect the reduced annual contribution caps.

Reduction of concessional (pre-tax) contributions cap to $25,000 per annum

Currently, members can make concessional (pre-tax) contributions up to $30,000 ($35,000 for people 50 years old and over) within a financial year.

From 1 July 2017, the government will lower the annual concessional contributions cap to $25,000 for all members. The cap will index in line with wages growth.

The intent of this change is to better target tax concessions to ensure the super system is equitable and sustainable.

Carry-forward concessional contributions of unused caps over five years

From 1 July 2018, members will be able to make 'carry-forward' concessional super contributions if they have a total superannuation balance of less than $500,000. They will be able to access their unused concessional contributions cap space on a rolling basis for five years. Amounts carried forward that have not been used after five years will expire.

The first year in which you can access unused concessional contributions is the 2019–20 financial year. The intent of this change is to improve the flexibility of the super system.

Improving the integrity of retirement income streams

Transition to retirement income streams (TRIS) are currently available to assist members to gradually move to retirement by accessing a limited amount of super. Currently, where a member receives a TRIS, the fund receives tax-free earnings on the super assets that support it.

From 1 July 2017, the government will remove the tax-exempt status of earnings from assets that support a TRIS. Earnings from assets supporting a TRIS will be taxed at 15% regardless of the date the TRIS commenced.

Members will also no longer be able to treat super income stream payments as lump sums for taxation purposes.

The intent of this change is to ensure that TRIS are not accessed primarily for tax purposes but for supporting members who remain in the workforce.

Reduction of Division 293 income threshold to $250,000

Currently members with income and concessional super contributions in excess of $300,000 will trigger a Division 293 assessment.

From 1 July 2017, the government will lower the Division 293 income threshold to $250,000. A member with income and concessional super contributions, exceeding the $250,000 threshold will have an additional 15% tax imposed on the amount over the threshold up to the total amount of concessional contributions not exceeding their concessional contributions cap.

Removal of anti-detriment payment

Currently, the anti-detriment provision enables a fund to claim a deduction in their tax return for a top-up payment made as part of a death benefit payment where the beneficiary is the dependant of the person. The top-up amount represents a refund of a member's lifetime super contribution tax payments into an estate.

From 1 July 2017, the government is removing this provision and super funds will no longer be able to claim this deduction. This change will ensure consistent treatment of lump sum death benefits across all super funds.

Innovative retirement income stream products

Currently there are rules restricting the development of new retirement income products.
From 1 July 2017, the government will remove these barriers by extending the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self-annuitisation products.

The intent of the change is to provide greater choice and flexibility for retirees to manage the risk that they outlive their retirement savings.

Breaking tax and super news - Tax & Super Australia. (2017). Overview of superannuation system changes for SMSFs. [online] Available at: http://taxandsupernewsroom.com.au/index.php/2016/12/12/overview-superannuation-system-changes-smsfs/ [Accessed 18 Jan. 2017].