

# New Super rules from 1 July 2007

- What are the changes?
- Implications
- Transition to retirement
- Summary



## Simplified super system

- Announced in 2006/07 Federal Budget and subsequent announcement on 5 September 2006
- The legislative Bills that give effect to the Government's superannuation simplification were passed by the Senate on 27 February 2007
- Substantial overhaul of current super system
- Most changes are due to commence from 1 July 2007



# Bills passed by the Senate on Tuesday 27 February 2007 ... very quickly

## ■ Superannuation (Excess Non-concessional Contributions Tax) 2006

This bill introduces the taxes on non-concessional contributions as part of the new simplified superannuation legislation.

## ■ Superannuation (Excess Untaxed Roll-over Amounts Tax) 2006

This bill introduces a higher rate of tax on transfers over \$1 million from untaxed to taxed schemes as part of the new simplified superannuation legislation.

## ■ Superannuation (Self Managed Superannuation Funds) Supervisory Levy Amendment 2006

This bill repeals the current penalty for the late lodgement of a self-managed superannuation fund's regulatory return.

## ■ Tax Laws Amendment (Simplified Superannuation) 2006

This bill implements the Government's Simplified Superannuation reforms and rewrites the superannuation taxation law into the Income Tax Assessment Act 1997 (ITAA 1997) to present a clear picture of the taxation of superannuation.



## Bills passed by the Senate on Tuesday 27 February 2007 ... very quickly

- **Superannuation Legislation Amendment (Simplification) Bill 2007**  
This bill makes consequential amendments required to implement the superannuation reforms.
- **Income Tax Amendment Bill 2007**  
This bill makes consequential amendments required to implement the superannuation reforms.
- **Income Tax (Former Complying Superannuation Funds) Amendment Bill 2007**  
This bill makes consequential amendments required to implement the superannuation reforms.
- **Income Tax (Former Non-Resident Superannuation Funds) Amendment Bill 2007**  
This bill makes consequential amendments required to implement the superannuation reforms.
- ***Income Tax Rates Amendment (Superannuation) Bill 2007***  
This bill makes consequential amendments required to implement the superannuation reforms.



## Case study 1

- Steve, aged 61, wants to cash out \$50,000 of his super to pay for an overseas holiday
- Prior to 1 July 2007, the lump sum would be taxed at up to 16.5%\* Steve would pay up to \$8,250 tax on the lump sum
- However, if Steve waits until 1 July 2007, the \$50,000 would be tax-free

\*Assumed that Steve has already used his tax free threshold of \$135,590



## Case study 2

- Craig and Vera, both aged 63, are currently receiving allocated pensions

	Craig	Vera
Gross pension	\$ 45,000	\$ 40,000
Tax and ML*	\$ 2,775	\$ 1,950
Net pension	\$ 42,225	\$ 38,050

\* Based on 2006/07 tax rates, including Medicare levy; assumed no other income received

- From 1 July 2007, the pensions will be tax-free. This is a saving of \$4,725 compared to current year tax payable
- Craig and Vera could reduce gross pension income whilst maintaining the same net income - to make their super last longer



## Case study 3

- Bruce, aged 55, is a high income earner and currently has \$800,000 in super.
- His Reasonable Benefit Limit position is as follows

Up to lump sum RBL*	\$678,149
Excessive amount	<u>\$121,851</u>
Total	<u>\$800,000</u>
- Bruce stopped making salary sacrifice contributions because he was worried about the higher tax payable on the excessive amount
- However, with RBLs to be abolished from 1 July 2007, Bruce should now reconsider making salary sacrifice contributions to reduce his tax liability and increase his super

\* 2006/07 threshold, indexed annually



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## Transition to retirement strategy - Case study

- Peter (aged 55) earns a salary of \$60,000 pa (\$45,900 pa after tax)
- He plans to retire at age 60 and will work full time until then
- Peter has \$300,000 in super



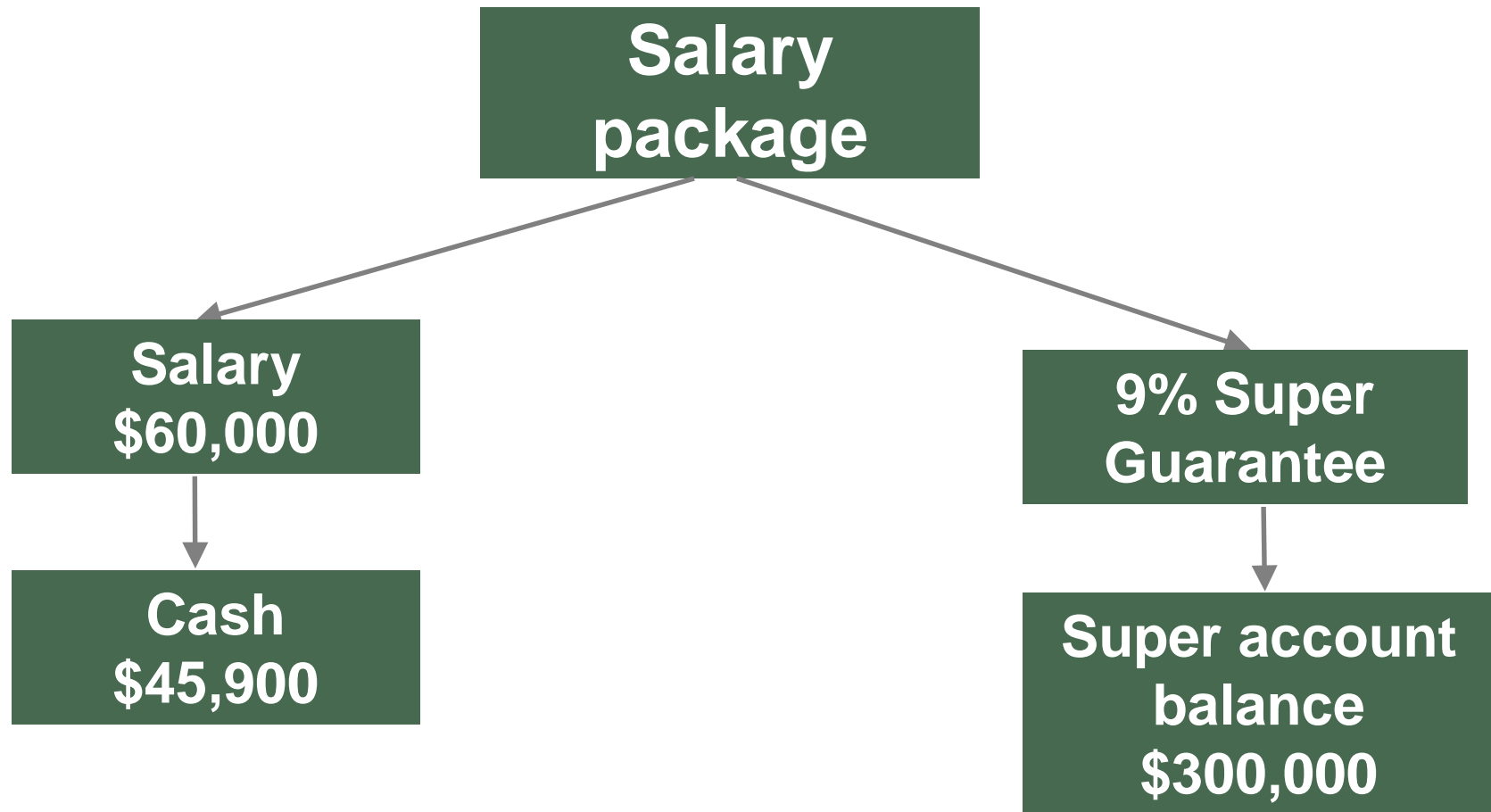
## Case study

- On 1 July 2006, he rolls over his super of \$300,000 to purchase a non-commutable allocated pension and elects to draw down the maximum pension payment (ie \$26,090 in year 1)
- Peter salary sacrifices \$32,314 into super as this provides him with the same net income of \$45,900\* after tax and Medicare levy

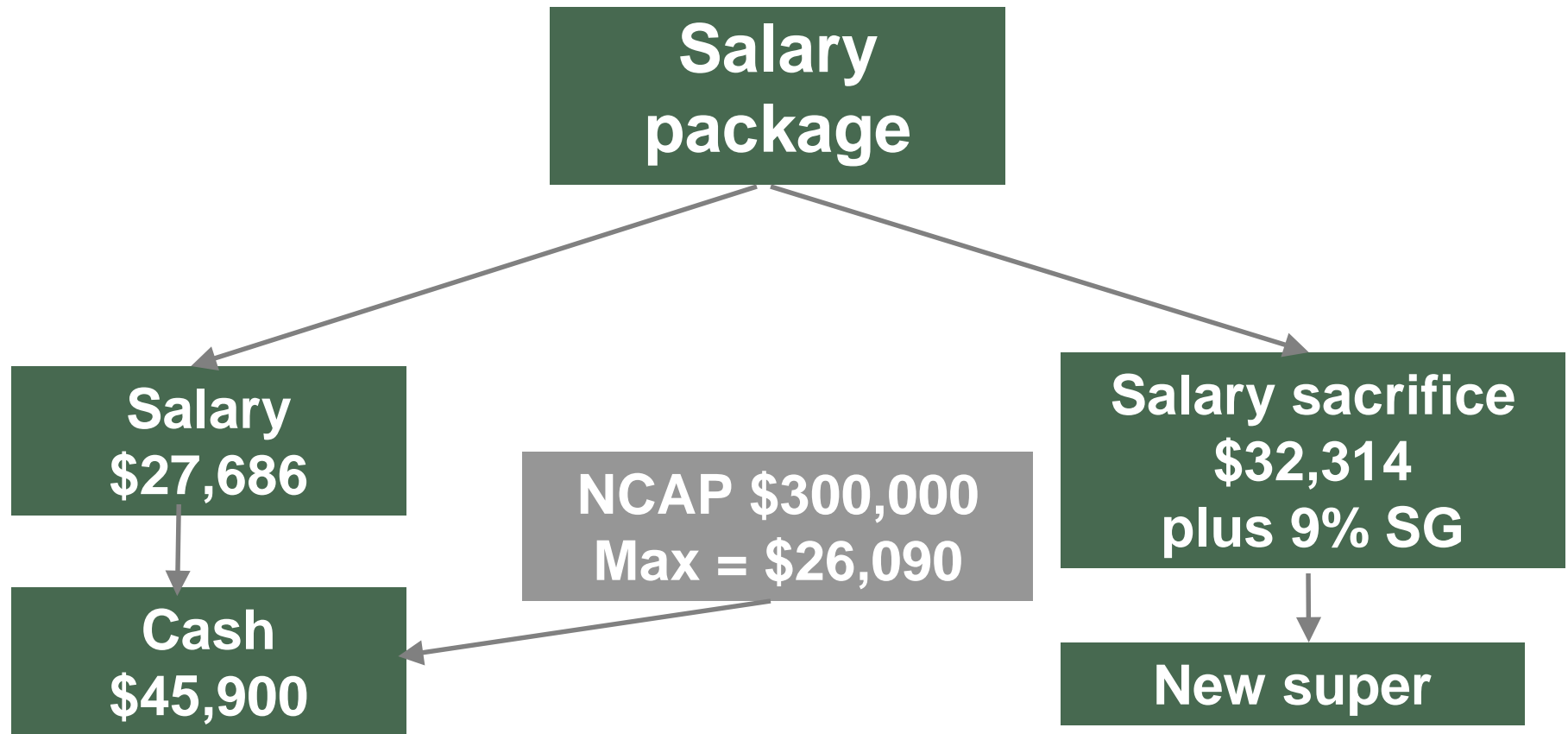
Peter confirmed with his employer that SG contributions would continue to be based on gross salary of \$60,000



# Current position



# With transition to retirement strategy



## Estimated gain

- Peter is estimated to have saved an additional **\$24,000** (approx) in super at age 60 using this strategy
- The increase is solely due to tax benefits. No change in investment strategy\*
- He could have further increased his super by making additional salary sacrifice contributions

\* Fund earnings assumed to be 6.8% pa in both accumulation and pension phase



## Tax-free benefits from age 60

- From 1 July 2007, if you are over age 60 and belong to a 'taxed' super fund
  - Lump sums will be tax-free
  - New (and existing) pensions will be tax-free
  
- Big win for many pre- and post-retirees
  
- Defer any lump sums until 1 July 2007 if age 60 or over
  - However, you can already access up to \$135,590\* as a lump sum tax-free from age 55. This will continue to apply for ages 55 - 59 from 1 July 2007

\* 2006/07 threshold; indexed annually



## Reasonable Benefit Limits abolished

- RBLs to be abolished from 1 July 2007
- Another big win for many pre- and post-retirees
- Super contributions back on the agenda for people who have saved more than their RBL
- Defer taking excessive benefits / starting pensions with excessive benefits until RBLs removed from 1 July 2007



## Contribution and cashing rules

- Deductible contributions to be accepted until age 75 (currently age 70) from 1 July 2007
- However, you must be working to contribute to super after age 65.
- From 10 May 2006, you can leave super in the fund indefinitely.
  - Currently, a non-working person must start a pension or withdraw their super as a lump sum at age 65



## New limits on contributions - deductible

Deductible contributions (new limit\* effective 1 July 2007)

	2006/07	2007/08
Under 35	\$ 15,260	\$ 50,000
35 to 49	\$ 42,385	\$ 50,000
50 to 70*	\$ 105,113	\$ 100,000

Deductible contributions may be made in excess of the new limit, however you will pay tax at 46.5% on the excess contributions, and the excess will be counted against your undeducted contributions limit.

If you are aged 50 or over, you will be entitled to a higher limit of \$100,000 per annum until 2011/12. From 1 July 2007, deductible contributions may be made to age 75, provided you satisfy the work test.



## New limits on contributions - undeducted

Cap of \$1 million on undeducted contributions from 10 May 2006 to 30 June 2007.

\$150,000 per annum limit on undeducted contributions from 1 July 2007, with an option to contribute \$450,000 to be averaged over a three-year period. The latter does not apply if over age 65.

Undeducted contributions in excess of these limits will be taxed at 46.5% on the excess amount.

Note that these limits are per person, so a couple could contribute \$2 million between now and 30 June 2007 (ie \$1 million each) and a further \$450,000 each in 2007/08 (using averaging rules), provided they are both under age 65 and they have the money.



## Self-employed

- Contributions by self-employed persons (up to age 75) will be fully tax deductible from 1 July 2007
  - Currently, only \$5,000 plus 75% of the contribution above \$5,000 is deductible
  - Age-based deduction limits currently apply; new \$50,000 limit applies from 1 July 2007
- Self-employed persons will be eligible for the Government co-contribution from 1 July 2007
- Self-employed persons will be eligible for the post-June 1994 invalidity component from 1 July 2007



# Pension changes

- New simplified pension from 1 July 2007
- No maximum payment, other than for transition to retirement pensions (NCAP).  
A maximum of 10% per annum of the account balance will be able to be drawn-down as a pension prior to retirement (from 1 July 2007)
- Lower minimum payment than currently required
  - 4% of balance for persons 55 to 64 years of age
  - 5% of balance for persons 65 to 74 years of age
  - 6% of balance for persons 75 to 84 years of age



## Social security changes

- 50% asset test exemption will no longer apply for income streams purchased after 20 September 2007
- Those who may be eligible for the Age Pension should consider starting a complying income stream before 20 September 2007
- More generous asset test from 20 September 2007
  - The maximum asset levels for eligibility for the age pension will increase to
    - Single homeowner \$494,000\*
    - Couple homeowners \$783,500\*

Based on rates and thresholds as at 9 May 2006;  
subject to indexation



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## Implications of superannuation changes

- Opportunity to maximise deductible super contributions to save more for retirement and reduce your tax
- Over-funding relative to RBL no longer a problem
- Wait until 1 July 2007 to access lump sums to take advantage of tax-free treatment
- Tax-free lump sums from age 60 will mean more access to super. But if you withdraw from super, where else can you invest tax-free (0% tax on earnings and capital gains)?



## Implications of changes (cont'd)

- Pensions tax-free from age 60 will generally only advantage those with large balances in super
  - For example, it is possible to receive approx \$32,895 tax-free as a pension (based on current tax rates), which represents approx \$380,000 to \$695,000 in super (based on minimum and maximum pension payments at age 55)
- Advantages of commencing a pension
  - No tax on investment earnings (15% tax in accumulation phase)
  - Pension payments tax-free from 1 July 2007
- Insurance cover under super may be more effective than personally-owned cover



# Summary

- Higher deduction limit for over 50s, and tax-free benefits from age 60, will make super a very tax effective option for many pre-retirees
- Under 50s will also benefit from the higher deduction limit compared to current age-based limits



# Summary

- Transition to retirement strategy should be considered by anyone over age 55 and still working due to the potential tax savings
- You should get advice about how the super changes affect your situation



# Summary

- Understanding super as it is now
- Superannuation and transition to retirement
- New simplified super system from 1 July 2007
- Implications



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