

BUDGET 2007

On Budget night the Government proposed significant changes to the superannuation system, most of which will start from 1 July 2007. Even though the measures are only proposals it is important that we understand their potential impact for future planning.

The major proposals are as follows:

- Australian individuals aged 60 and over who withdraw amounts, in the form of a lump sum or a pension, from a taxed superannuation fund will not be taxed on these amounts in their individual income tax returns. Benefits paid to those aged less than 60 will continue to be taxed although the rules will be simplified.
- The Reasonable Benefits Limits (RBL) will be abolished. These limits currently cap the amount of concessional tax superannuation benefits that a taxpayer can access.
- As the Government is proposing to abolish RBL's, they will restrict the amount that is able to be put into a fund by allowing members a maximum of \$50,000 to be contributed to a fund each year in the form of employer or self-employed contributions. If you are aged 50 years or over on 1 July 2007 this limit will be increased to \$100,000 per year for the following 5 years, after which time it will revert back to \$50,000.

In addition all members will be able to make personal undeducted contributions of not more than \$150,000 a year, or \$450,000 averaged over 3 years. This measure will apply from 9 May 2006 if the plan is implemented.

- Tax-deductible superannuation contributions will be able to be made up to age 75. Existing rules do not allow a deduction past age 70 in almost all cases.

Self-employed persons will be able to claim a full deduction for 100% of their superannuation contributions. Currently people making self-employed contributions can claim \$5,000+75% of contributions over \$5,000, up to their age-based limit.

- Self-employed persons, not only employees, will be eligible for the Government co-contribution. The Government co-contribution is a scheme whereby the Government will match any personal undeducted superannuation contribution. The Government currently matches \$1.50 for every \$1.00 on incomes below \$28,000. Above this income level the co-contribution then starts to reduce

and is fully phased out at \$58,000.

- People will no longer be forced to draw down on their superannuation benefits once they reach 65 and are no longer working. They will have complete flexibility to be paid out whenever and however they wish. This rule became effective from 9 May 2006.
- Allocated pension payments are currently set between a minimum and maximum amount. The changes will remove the maximum amount thus removing the restriction upon how much income you will receive each year.

If you are already receiving a pension you will still be able to take advantage of the proposed changes outlined above where eligible.

Treasury is currently considering its position with respect to the impact of these rules upon special types of pensions, such as market linked or complying pensions. As further information is released, we will keep you informed.

QUESTION

I am over 50 and my current remuneration from my employer is \$100,000. I have chosen to salary-sacrifice the full amount into my SMSF. I also receive substantial distributions from trusts, dividends, and interest income. Can I make a further contribution as a self employed person and how much would be deductible?

ANSWER

Yes, this is possible –it is known as double dipping. There are no work requirement tests for personal superannuation contributions made by individuals under age 65. The individual can make a contribution and claim a tax deduction provided that less than 10% of their assessable income comes from an employment source (this is known as the ‘self-employed’ rule). If you are sacrificing all of your salary into superannuation less than 10% of your income will come from employment.

You will therefore be able to claim a tax deduction for a personal contribution as there is no requirement to be self-employed - the receipt of passive investment income is sufficient. The first \$5,000 plus 75% of the balance will be deductible, capped at your age-based limit. Note also that a contribution cannot create or increase a tax loss, therefore you will have to have sufficient income to claim the deduction.

Note that the effectiveness of this strategy will be limited from 1 July 2007.

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