



November 2003

TECHNICAL UPDATE

**A REDUCTION IN THE CONTRIBUTION SURCHARGE TAX AND CO-  
CONTRIBUTION LEGISLATION PASSED**

On Monday 27 October 2003 the Federal Government, with the support of four independent senators, managed to pass two key superannuation reforms.

**EXECUTIVE SUMMARY**

- The 15% contribution surcharge tax will be reduced from 15% to 12.5% over the next three years;
- The Federal Government will match every dollar of superannuation contributions, up to a maximum of \$1,000, made by those members earning less than \$27,500 p.a. Those with higher incomes will receive co-contributions on a sliding scale for incomes up to \$40,000 p.a.

**REDUCTION IN THE CONTRIBUTION SURCHARGE**

Since August 1996 there has been an additional surcharge (i.e. tax) of 15% on employer contributions for so called "high income earners". For the 2003/04 financial year the Contribution Surcharge is phased in for those employees who have adjusted taxable income in excess of \$94,691 and the full 15% Contribution Surcharge is payable for those employees who have taxable income in excess of \$114,981 (these thresholds are indexed each year).

The Federal Government has announced new legislation that is effective from 1 July 2003 and the current 15% surcharge will reduce to 12.5% in the 2005/06 financial year. It is due to be reviewed at that stage. The timetable for the reduction is as follows:

<b>Financial Year</b>	<b>Maximum Contribution Surcharge Rate</b>
2003/2004	14.5%
2004/2005	13.5%
2005/2006	12.5%

**CO-CONTRIBUTIONS FOR LOW INCOME EARNERS**

The Co-contributions legislation is designed to encourage additional contributions from "low income earners".

The Government will match every dollar of eligible superannuation contributions, to a maximum of \$1,000 p.a., made by those earning less than \$27,500 p.a. The co-contributions are on a declining scale for those earning between \$27,500 p.a. to \$40,000 p.a. The co-contribution reduces by 8 cents per dollar after \$27,500 p.a., phasing out completely at \$40,000 p.a.



To be eligible for the payment of the co-contributions the member must be supported by an employer and be making after-tax member contributions of at least \$1,000p.a. The co-contributions do not attract the 15% contributions tax and are fully preserved.

The Tax Office will compare the information supplied by superannuation funds with the individual tax returns to ascertain the co-contribution entitlement. The effective date for the commencement of the co-contributions is 1 July 2003.

#### **FOR FURTHER INFORMATION**

For further information please contact either David Lewis or Brendan Paddison at NFC on (02) 9929 2700, e-mail us at [info@northbridgeadmin.com.au](mailto:info@northbridgeadmin.com.au) or visit our website [www.northbridgeadmin.com.au](http://www.northbridgeadmin.com.au).

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