



June 2005

TECHNICAL UPDATE

**ABOLITION OF THE CONTRIBUTION SURCHARGE TAX,
CONTRIBUTION SPLITTING AND SG CHANGES**

We are sure by now that you have all read “budget newsletters” from various sources. In our Technical Update we thought that we would provide some commentary on the “possible opportunities” that exist as a result of the announcements made in the 10 May 2005 budget and other superannuation changes.

EXECUTIVE SUMMARY

- The contribution surcharge tax, which had previously been legislated to reduce from the current rate of 12.5% to 7.5% over the next three years, will be completely abolished with effect from 1 July 2005;
- The re-introduction of superannuation contribution splitting with spouses;
- Some minor changes to the superannuation guarantee; and,
- A new condition for the release of benefits for those aged over 55 years.

REMOVAL OF THE CONTRIBUTION SURCHARGE

Since the Federal Treasurer, Peter Costello, introduced it in 1996 there has been an additional surcharge (i.e. tax) on employer contributions for so called “high income earners”. In the May 2005 Federal Budget, it was announced that the surcharge would be abolished from 1 July 2005. This applies to both employer contributions (including salary sacrifice) and termination payments. Subsequently, the enacting legislation has not been passed by the Senate but the Prime Minister has indicated that it will be resubmitted after 1 July 2005 when the Government gains control of the Senate.

This is an extremely positive announcement for “high income earners” i.e. those people with “adjusted taxable income” of \$99,710 p.a. and above. This will enhance the tax effectiveness of superannuation as a structure for increasing retirement savings.

Possible Opportunities?

- Defer any salary sacrifice or bonus payments being contributed to super until after 1 July 2005;
- Increase/re-commence salary sacrifice contributions to super (after 1 July 2005);
- Use a combination of salary sacrifice and after-tax member contributions to qualify for the Government’s Co-contribution.

SUPERANNUATION SPLITTING

The Government has announced that legislation enabling the splitting of superannuation contributions will be reintroduced and will apply for contributions made on or after 1 July 2006. Originally announced in 2002, superannuation splitting allows the opportunity for



eligible couples to transfer employer and personal superannuation contributions paid on behalf of one spouse to the other spouse.

Superannuation funds will not be forced to offer splitting but given a “choice” environment we would imagine that the majority of funds will offer this facility. Previous proposals allowed spouse to split 60% of deductible contributions and 100% of personal after tax contributions made in a year. This was to be done annually at the end of the financial year in which the contributions were made. It is not clear, at this stage, whether these original proposals will be actually what is finally legislated.

Possible Opportunities?

- Splitting of contributions will potentially enable couples to more fully utilise two “post age 55” tax free thresholds and two Reasonable Benefit Limits (“RBL’s”) at retirement. This will be particularly attractive to people who have a spouse with a relatively low level of accrued superannuation assets. Splitting of contributions, when combined with salary sacrifice, can enhance the tax effectiveness of retirement income streams;
- It may be an opportune time to consider establishing a “self-managed super fund” to allow greater flexibility in your super arrangements;
- Ensure that your current super fund allows spouse accounts, if your spouse does not have a current super fund.

SUPERANNUATION GUARANTEE

There were some minor changes affecting SG payments as follows:

- From 1 January 2006 the Government announced it will allow certain late employer SG contributions made to a super fund on behalf of an employee to be used to offset the portion of any SG charge (i.e. the ATO’s penalty for late payment) for the previous quarter. The employer will have a 30 day window to make the payment of the outstanding contribution for it to count towards the employer’s SG obligations;
- Employers will be required to pay SG contributions in respect of payments of salary or wages made after the quarter in which the relevant employment ceased. Currently, where a payment of salary or wages is made after the quarter in which employment ceased, no SG obligation exists (the effective date for this legislation is not known yet);
- The Government announced the closure of the ATO’s “Superannuation Holding Accounts Special Account” (“SHASA”) with effect from 1 July 2006. From that date employers will no longer be able to use SHASA to meet their SG obligations and employers will need to make their contribution to a complying super fund.

NEW CONDITION OF RELEASE FOR OVER 55s

The Government released amendments to the Superannuation Industry (Supervision) Regulations on 4 April 2005 that allow anyone of “preservation age” (age 55 for people born prior to 1 July 1960 and at a later age, maximum 60, for people born after 1 July 1960) to access their superannuation in the form of a non-commutable income stream, without having to retire or resign from work. This new condition for the release of benefits applies from 1 July 2005.



REMINDERS

- Standard Choice forms need to be sent to all current employees as at 1 July 2005 by the 29 July 2005;
- Quarterly SG contributions must be paid by 28 July 2005;
- Pay June 2005 contributions prior to 30 June 2005 if the Company wishes to claim a tax deduction in the 2004/05 financial year.

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 or visit our website www.northbridgeadmin.com.au.

If you are interested in finding out more about some of the “possible opportunities” provided by the recent changes announced in the Budget, financial planning services can be provided via our sister company, Northbridge Financial Solutions Pty Ltd (“NFS”). NFS is licensed under Community and Corporate Financial Services Pty Ltd, (“ComCorp”, AFS Licence No 225085, ABN 44079121136) and neither NFS or ComCorp are aligned with any financial institution.

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