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TALKING POINT!

WELCOME

We hope that you find **TALKING POINT!** informative and welcome your feedback. Please feel free to e-mail any comments or questions to us on info@northbridgeadmin.com.au.

In this special edition of **TALKING POINT!** we specifically cover the changes announced in the May 2006 Federal Budget and clarifications released since then. Note that although the legislation has been introduced and regulations released, the changes are not yet finalised.

IMPORTANT NOTE

In the May 9 2006 Federal Budget, the Treasurer Peter Costello announced sweeping changes to superannuation. Whilst some of the changes are effective 10th May 2006, many other changes are not due to take effect until 1 July 2007.

Please note that we have not covered all the proposed changes to superannuation in this newsletter. We have concentrated on the main changes that will affect the majority of people.

LIMITS ON NON-CONCESSIONAL CONTRIBUTIONS – effective 10 May 2006

Effective 1 July 2007, a limit or cap of \$150,000 per annum will be imposed for “post tax” undeducted super contributions (now referred to as “non-concessional” contributions) made by an individual. To accommodate larger one-off payments, individuals under age 65 at any time in the first year can bring forward two years of future contribution entitlements, giving them a cap of \$450,000 over three financial years. Non-concessional contributions can only be made after age 65 if the “work test” is satisfied, but the \$150,000 p.a. cap will apply without any bring-forward provisions.

Transitional rules apply for the period 10 May 2006 to 30 June 2007. During this period a transitional non-concessional contributions cap of \$1,000,000 applies for persons eligible to contribute.

Contributions in excess of the non-concessional cap will be subject to penalty tax at the top marginal tax rate plus the medicare levy i.e. 46.5%. The individual may withdraw an amount (via a “Release Authority”) from their superannuation account (excluding a defined benefit interest account) equal to their tax liability to the ATO.

Employer contributions which exceed the age based deductible limits in the period 10 May 2006 to 30 June 2006 and in the financial year 2006/07 will count towards the transitional non-concessional contribution cap. The same applies to employer contributions above the concessional contributions cap from July 1 2007 onwards.

CHANGES TO AGE-BASED CONCESSIONAL CONTRIBUTION LIMITS – effective 1 July 2007

The current age-based maximum deductible contribution limits will be abolished and replaced with a deductible limit (referred to as a “concessional” contribution cap) of \$50,000 per person per annum. The employer can receive a full tax deduction for all contributions made on behalf of their employees under age 75.



The \$50,000 limit will be indexed to AWOTE in \$5,000 increments.

A transitional concessional contributions cap of \$100,000 per person per year will apply in the financial years 2007/08 to 2011/12 for clients aged 50 or over at any time in a transitional financial year.

The ATO will identify any concessional contributions made above these limits and these contributions will be taxed at a penalty rate of 31.5%, in addition to the normal contributions tax rate of 15%. This is then equivalent to the top marginal tax rate of 46.5%. The additional penalty tax is imposed on the individual, who will have 21 days after assessment to pay the ATO. The individual can elect to submit a "Release Authority" to their super fund to recoup the tax liability i.e. have the tax liability paid from his or her super fund.

TAX FILE NUMBERS - effective 1 July 2007

Legislation will be amended so that when an employee provides a Tax File Number ("TFN") for employment reasons, they will also be supplying it for superannuation purposes. Employers have 14 days to pass on the TFN to the superannuation fund.

To enforce the contribution limits (described above) the ATO will require funds to report TFNs. Where a TFN has not been quoted to a superannuation fund by the end of the financial year in which assessable contributions have been made:-

- concessional contributions will be taxed at a penalty rate of 31.5%, in addition to the normal contributions tax rate of 15%; and,
- Non-concessional contributions will be rejected.

REASONABLE BENEFIT LIMITS – effective 1 July 2007

From 1 July 2007, Reasonable Benefit Limits ("RBLs") will be abolished. This means that all lump sum superannuation withdrawals from this date can be withdrawn on a concessional tax basis, and all retirement pensions will be subject to the full pension tax offset. Excess superannuation benefits will no longer exist.

TAXATION OF LUMP SUM WITHDRAWALS FROM SUPER FOR PERSONS AGED 55 & ABOVE – effective 1 July 2007

The Government has announced that lump sum and pension benefits paid from a taxed superannuation fund at age 60 or over will be tax free. Members will not be required to include these payments in their annual tax returns. The new tax rates on lump sum withdrawals are as follows:

Age	Tax
Under age 55	*Exempt Component ((i.e. non-concessional contributions and pre 1983 component) - 0% Taxable Component (i.e. Post'83 component) - 21.5%
Age 55 to 59	*Exempt Component (i.e. non-concessional contributions and pre 1983 component) - 0% Taxable Component (i.e. Post'83 component) Within the Unused Low Rate Threshold of \$140,000** - 0% Over Threshold - 16.5%
Age 60 and above	Nil



* the Exempt component will be the crystallised undeducted contributions and pre'83 component calculated at 1 July 2007 plus any concessional/non-concessional contributions made after that date.

**The low tax threshold will be set at \$140,000 on 1 July 2007. This amount will be indexed to AWOTE each year, but will only increase in \$5,000 increments.

Superannuation benefits paid as a lump sum or as a pension to persons age 60 and above will be received tax free. These benefits will not be included in the individual's tax return. NB: There is no change to the preservation rules governing access to superannuation.

DEATH BENEFITS – effective 1 July 2007

In the event of a death of a member, all lump sum benefits paid from a taxed superannuation fund will be tax free when received by a “dependant” for tax purposes, and generally taxed at up to 16.5% if received by a “non-dependant” (e.g. adult child).

If paid to:	Prior to 1 July 2007	After 1 July 2007
“Dependant”	Tax free up to deceased's Pension RBL and then excess taxed at highest marginal tax rate	All tax free
“Non-dependant”	Taxed at up to 31.5% for benefits up to deceased's Pension RBL and then excess taxed at highest marginal tax rate	Generally taxed at 16.5% (a higher tax rate of 31.5% may apply if the death benefit contains an insurance component).

A “dependant” for tax purposes includes a spouse, child, interdependent or financial dependant. From 1 July 2007 death benefit pensions can only be commenced for “dependants” i.e. for “non-dependants” the benefit must be paid as a lump sum.

COMPULSORY “CASHING OUT” RULES – effective 1 July 2007

Currently, a member that has attained age 65 is subject to a work test in order to maintain their benefits in superannuation. Generally, a member attaining age 75 must take their superannuation benefits out of the superannuation system. From 1 July 2007, these compulsory cashing out rules will be abolished, allowing a member to maintain their benefits in superannuation indefinitely.

PORTABILITY

Superannuation funds will be required to transfer benefits as soon as possible and, at the latest, within 30 days (previously 90 days) after a member has provided all of the necessary information. The Government is intending to develop a standard form to assist with this process.

EMPLOYER PAYMENTS (ETP's) - effective 1 July 2007

Eligible termination Payments (ETP's) will comprise a tax free component (pre'83 and invalidity components) and a taxable component (the balance of the payment).

The taxable component will be subject to an “employment terminations payment cap” of \$140,000 in 2007/08 - the cap will be indexed to AWOTE in \$5,000 increments. This cap is an annual limit, and applies to all ETP's received in a financial year.



Taxable amounts within the cap are taxed as follows-

Less than Age 55	31.5%
Age 55 or over	16.5%

Taxable amounts above the cap are taxed at 46.5%

Age is based on the age at the end of the financial year in which the ETP is received. Taxable amounts within the cap will not be counted towards the low rate threshold on superannuation lump sum benefit payments. Except for transitional arrangements (see below), employees will no longer be able to elect to roll-over ETP's to superannuation.

Transitional arrangements apply to ETP's in the period 1 July 2007 to 30 June 2012, if the amount of the payment (or method of calculating the payment) was specified in a written contract, law, legal instrument or workplace agreement as at 9 May 2006. "Transitional termination payments" can be rolled over to superannuation, and an "upper cap" of \$1,000,000 applies.

Taxable components of Transitional ETP's are taxed as follows-

Less than Age 55	31.5% on amounts up to \$1,000,000
	46.5% on amounts above \$1,000,000
Age 55 or over	16.5% on amounts up to \$140,000 (lower cap)
	31.5% on amounts between \$140,000 and \$1,000,000
	46.5% on amounts above \$1,000,000

GOVT. CO-CONTRIBUTIONS SCHEME EXTENDED FOR SELF EMPLOYED - effective 1 July 2007

Currently to qualify for a Govt. co-contributions into super a person must receive at least 10% of their assessable income plus reportable fringe benefits from eligible employment. From 1 July 2007 persons must generate 10% or more of their total income (assessable income plus reportable income - not reduced by business deductions) from employment or carrying on a business. In determining the amount of the co-contribution entitlement, income is reduced by business deductions.

FOR FURTHER INFORMATION

As with many superannuation matters we believe members need to fully understand the implications of any actions they are considering. We recommend that you take financial advice before taking any action on this or many other superannuation matters.

If you are interested in finding out more about the proposed changes to superannuation, financial planning services can be provided by Northbridge Financial Solutions. Northbridge Financial Solutions (NFS), authorised under the licence of Community & Corporate Financial Services Pty Ltd (AFS Licence No 225085, ABN 44079121136), is a specialist provider of financial advisory services to corporate superannuation funds and their members. NFS is not aligned with any financial institution.

Contact NFS on (02) 9929 2700, e-mail us at info@northbridgeadmin.com.au or visit our website www.northbridgeadmin.com.au.

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