



March 2007 Edition

TALKING POINT!

WELCOME from the Adviser to Your Personal Super Plan

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 sweeping changes to superannuation 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. Please note that we have not covered all the proposed changes to superannuation in this newsletter. **A more detailed newsletter is available on the NFS website.**

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. 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 then 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%.

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. 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%.

TAXATION OF LUMP SUM WITHDRAWALS FROM SUPER – effective 1 July 2007

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.

There is no change to the preservation rules governing access to superannuation.

Other Changes Effective July 1 2007

- Compulsory cashing out rules at age 65 will be abolished, allowing a member to maintain their benefits in superannuation indefinitely.
- 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.
- The Govt. Co-contribution scheme will be extended to the self-employed. 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.
- 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 (31.5% tax may apply if the death benefit contains an insurance component). A "dependant" for tax purposes includes a spouse, child under the age of 18, someone in an interdependent relationship or a 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.
- The ATO will require funds to report TFNs. Where a TFN has not been quoted to a superannuation fund by the end of the in which assessable contributions have been made an additional penalty rate of 31.5% will apply to concessional contributions. Non-concessional contributions will be rejected if a TFN is not quoted.

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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