



July 2007 Edition

TALKING POINT!

WELCOME

In this special edition of **TALKING POINT!** we specifically cover the changes to the contribution limits announced in the May 2006 Federal Budget and clarifications released since then. These changes are effective from 1 July 2007.

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.

LIMITS ON NON-CONCESSIONAL CONTRIBUTIONS

What are the new limits?

From 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.

The highly publicised \$1m non-concessional contribution cap that applied prior to 30 June 2007 has now ceased.

What are the penalties for exceeding the new limits?

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%. Where this occurs, the ATO will issue an assessment to the individual advising them of the additional tax liability. The individual must give this to the Fund for payment together with the relevant release authority (see further details below).

LIMITS ON CONCESSIONAL CONTRIBUTIONS

What are the new limits?

From 1 July 2007, a limit or cap of \$50,000 per annum will be imposed for company and “pre tax” super contributions (now referred to as a “concessional” contribution) made by an individual. 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 that particular “transitional” financial year.

Concessional contributions include:

- All company contributions* (including 9% SG contributions and any additional company contributions made to meet insurance and administration expenses etc);
- Any salary sacrifice contributions; and,
- Any deductible personal contributions (mainly applies to self-employed people).



*NB: There are specific regulations that apply to members of defined benefit plans. Further details are available upon request.

What are the penalties for exceeding the new limits?

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%. Where the limit has been exceeded, the ATO will issue an assessment advising of the additional tax liability. The individual must pay this personally unless they provide a “release authority” to the trustee within 21 days of receiving the assessment. In this case, the tax will be deducted from the superannuation account. Individuals who receive such an assessment we recommend that they contact their financial or tax adviser.

Employer contributions which exceed the concessional contribution cap (i.e. \$50,000 or \$100,000) will count towards the non-concessional contribution cap (i.e. \$150,000).

IMPORTANT REMINDER

It is important to note that each of the contribution caps described above apply to the total contributions made in respect of an individual during a financial year to all superannuation funds including certain defined benefit accruals and allocations from reserves/surpluses. Particular attention needs to be taken as to the total of the contributions made on behalf of the individual especially if they have one or more contributing employer or more than one fund accepting contributions on their behalf. The ATO will monitor all of contributions (via the individual’s tax file number) and compare the total to the applicable cap.

However, from 1 July 2007, the responsibility for the breaching the concessional contribution limit has shifted from the employer to the employee. Irrespective of whether an individual exceeds the concessional contribution cap or not, the employer will receive a full tax deduction for **all** contributions made on behalf of their employees under age 75.

As the penalties (i.e. the additional tax) for exceeding both the non-concessional and concessional contribution limits now apply at member level, rather than the employer losing tax deductibility for any “excess” contributions, it is responsibility of individual members to monitor the situation in regards to the new contribution limits.

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 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.

Disclaimer

Please note the information contained in this newsletter does not constitute personal financial product advice, personal investment or securities advice or recommendations. Before making any investment decisions, you should consider whether such an investment is appropriate in light of your particular investment needs, objectives, and financial and taxation circumstances.