



February 2008 Edition

TALKING POINT! – ACCUMULATION MEMBERS

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 came into effect on 1 July 2007. **This edition is specifically for members of accumulation plans. If you are a member of a defined benefit category, a separate newsletter has been prepared.**

It is likely that you will, or would have already, received information on these new limits from the trustee of your superannuation plan.

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, and the \$150,000 p.a. cap will apply without any bring-forward provisions.

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 from their superannuation account 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 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).

Particular care needs to be taken if you are either making significant salary sacrifice contributions or are considering paying bonuses or commissions into superannuation.

What are the penalties for exceeding the new limits?

“Excess” Concessional 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 the additional tax payable. 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 their superannuation account. 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).

Who pays this additional tax?

From 1 July 2007, the responsibility for the breaching the Concessional Contribution cap 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 liability for additional tax on exceeding both the non-concessional and concessional caps now falls to members they need to monitor their situation in regards to the cap.

FOR FURTHER INFORMATION

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

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.

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