

It's a social thing: changes to the superannuation planning landscape

By Garry Pammer, CA, BEc, LLB



“Wayne Swan has highlighted superannuation taxation concessions are an area which the Government is very keen to reform... [to] shift superannuation contribution incentives from high to middle and low income earners...”

Like most humour, it was considered funny at the time because it closely resembled an apparent reality - too much legislative change within superannuation.

It was a cartoon entitled “somewhere in Canberra” and it depicted a man with an apologetic yet curious face peering through a partially opened doorway into a dimly lit boardroom. Other men were relaxing around a boardroom table, apparently in the midst of end of week office drinks. One of them was explaining, “Oh it’s a social thing. At the end of every week we get together for a few drinks and chat about the changes we can make to superannuation”.

I guess you have to be working in finance to laugh at things like that. Difficult for tax related matters to be interesting let alone amusing at the best of times. However it did the rounds for years and years. I am sorry I lost my copy of it because it continues to closely resemble the reality of ongoing change in our superannuation policy and legislation.

Are more future changes likely?

Parliament rose for its Christmas break back on 2 December. They probably need the break. Pressure over Government policies on asylum seekers, border protection and processing refugees. Government defeats on university student

allowance changes, ophthalmology Medicare benefit cuts as well as the alcopops tax. Tumult over the Liberal Party leadership and consequent changes to the two party preferred polling. Lots of crossing the floor and a double dissolution trigger finally handed to the Government when the Government’s Emissions Trading Scheme (ETS) was rejected by the Senate.

When they resume, they’ll have to take up the deferred legislative block on Telstra buying the wireless spectrum for its Next G business, Copenhagen’s Global Climate Change talkfest, those darn banks that might continue to pass on interest rate rises to customers in excess of ongoing Reserve Bank rate rises and no doubt, this whole Japanese whaling thing.

Like I said, most tax related matters are nowhere near as interesting as all of these developments but one cannot ignore the fact that 2010 also sees the co-incidence of the Cooper and the Henry superannuation and tax reviews as well as the Ripoll financial services enquiry.

In speaking at the Economic and Social Outlook Conference in Melbourne late last year, Treasurer Wayne Swan has highlighted superannuation taxation concessions are an area which the Government is very keen to reform, expecting the Henry review to usher in a 10 year tax reform program and shift of superannuation contribution incentives

from high to middle and low income earners. The Financial Services, Superannuation and Corporate Law Minister Chris Bowen, recently speaking to the ASFA Annual Conference, has also used words such as “equity and adequacy”, linked increases to the 9% Superannuation Guarantee to move superannuation concessions from higher to middle and lower income earners and sees the abovementioned enquiries as a chance to “put in place a system that will stand not only from budget to budget but for a decade or more”.

Irrespective of whether you appreciate the melody or not, at least the Government, unlike the members of the opposition, seem to be singing the same tune!

Not that we had to wait all that long for change...

The superannuation industry had barely just over two years to settle into a “new” superannuation regime ushered in by the previous Government. Notwithstanding, the current Government introduced changes effective from 1 July 2009 which included:

Table 1. Contribution caps for 2009/10 financial year

Age	Concessional Contributions Cap			Non-Concessional Contributions Cap	
	Now	Previously announced		Now	Previously announced
Under 50 at year end	\$25,000	\$55,000	Standard Cap	\$150,000	\$165,000
50 or over at year end	\$50,000	\$100,000	Bring Forward Rules*	\$450,000	\$495,000

* Maximum amount that can be contributed over a 3 year period allowing up to 3 years worth of non-concessional caps being contributed in 1 year.

1. introduction of a new concept from 1 July 2009: Reportable Employer Superannuation Contributions (RESC);
2. incorporation of RESC into the “maximum earnings as an employee” or “10%” test;
3. lower contribution caps; and
4. halving of minimum pensions.

The 1 July 2009 changes outlined at 1. and 2. above relate to the old test that examined whether an individual received more than 10% of the following:

- assessable income; plus
 - reportable fringe benefits.
- from employment-related activity. If you received less than 10% of these from employment, then you could claim a personal tax deduction for your own superannuation contributions.

Reportable Employer Superannuation Contributions have now been added to the 10% test calculations meaning that you must now include any employer contributions which the employee has or



don't let the tax man drill you

Clark & Jacobs
Accounting and Business Advisers
Dental specialists for over 20 years

Please contact Garry Pammer, Alison Lacey or Heath Stewart on:
Telephone (02) 9264 1111 Fax (02) 9264 1344 email info@clarkjacobs.com.au website clarkjacobs.com.au

might reasonably be expected to have had the ability to influence.

In essence, 1. and 2. above particularly affect those who were previously using salary sacrifice arrangements to reduce their “employment income” to try and ease their way into the 10% test so that they could fully utilise their concessional superannuation caps (i.e. rather than be limited to the annual 9% Superannuation Guarantee limit).

The reduced concessional contribution limits mentioned at 3. above were announced in the May 2009 Federal Budget. From 1 July 2009, the Government effectively halved the maximum amounts that you could contribute to super from pre-tax income, without incurring additional tax. Table 1 sets out the changes in both the concessional and non-concessional contribution caps for the year ended 30 June 2010.

If your concessional contributions exceed the new amounts during the year ended 30 June 2010, you will be hit with additional tax of 31.5% on the excess. This would take your total tax on your excess contributions to 46.5%. Note however that it is not just the immediacy of the reduction in the available 2010 tax deduction and the risk of excess contributions tax that must be considered.

Clients who were planning to maximise their concessional contributions, particularly those who had or had planned to use a reasonably widespread transition to retirement pension after 55 years of age, have had to revisit their approach with us. Similarly, the indexation upwards of the caps has been quietly removed from the legislation. Based on the indexation factor of

average weekly earnings, we will likely not see an increase in say, the \$150,000 non-concessional cap until around 1 July 2014. At that point it may well rise markedly to \$180,000! This would also mean that the bring forward amount, allowing an individual to contribute up to 3 years’ worth of non-concessional caps in one year, would rise markedly to \$540,000!

Clearly concessional contributions remain attractive. If anything, the reductions make an even stronger case to try and make every effort to make full use of the caps each year wherever possible since it is becoming even harder to rely on making large concessional contributions in your later years to top up your superannuation balances.

Of course the halving of the minimum drawdown requirement mentioned at 4. above was a concessionary relief measure for most superannuation pensions. It allowed people to reduce their pension drawings to preserve what was left of their capital in their superannuation funds after the GFC.

Superannuation strategy review

We have already made all our clients fully aware of the implications of their new caps, which contributions count towards it and how each of the other changes affect them.

If you haven’t already done so you should speak to your advisor about your personal situation. As outlined above, this is not just about your tax deduction limits in 2010. The new changes have much wider impact in the medium and long term and there will be more changes coming which will definitely have further impact during the next decade.

At the very least you should revisit how you currently use or, were intending to use, the following five key superannuation strategies in the upcoming years:

1. contributions;
2. use of lump sums;
3. starting pensions;
4. quarantining tax and preservation categories; and
5. reserves within your super fund.

Future articles may well consider the various issues revolving around each of the above key strategies. Based on the political and Parliamentary reviews anticipated in 2010 and as outlined at the beginning of my article, I suspect that those articles will also be topical in the context of more legislative change.

Disclaimer

This article is designed to provide generic information only and should not be viewed as a recommendation to act. Individuals should seek advice from a qualified advisor to ensure their actions are commensurate with their financial needs and requirements.

About the author

Garry Pammer is a Partner of Clark & Jacobs, Accounting and Business Advisers, specialising in providing advice to dentists. Advice includes planning for your financial wellbeing, superannuation, insurance, practice management, computer software and the buying and selling of dental practices. For a free assessment of your financial position and to see how you can achieve your goals, please do not hesitate to call Garry on (02) 9264-1111.