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Planning to Benefit from Superannuation Changes

On 27 February 2007, the Federal Government's Superannuation reform package was passed by Parliament. These changes represent a major simplification of the Australian superannuation scene. There are a number of great planning opportunities that now arise both prior to, and after 30 June 2007.

Stephen A Maher & Co is able to provide detailed advice on the impact of these changes, and how they may apply to your circumstances.

The following is an overview of the most important changes.

1. Abolition of the RBL system

The existing Reasonable Benefits Limit system taxed excessive superannuation benefits at penalty rates. Accountants and financial planners expended significant effort advising clients how to keep superannuation benefits below the RBL. From 1 July 2007, the RBL system will be abolished. Generally there

will be no direct limit on how much an individual can accumulate in superannuation. This is a welcome change to Australia's superannuation system. The RBL system was notoriously complicated. (The one exception is in relation to members of Government super funds, with accumulated benefits in excess of \$1,000,000.)

2. Tax Exemption on Superannuation Benefits

From 1 July 2007, superannuation benefits paid to persons aged over 60 will be exempt from tax, i.e. you will pay no tax at all on any benefits drawn from the fund.

3. Deductible Contributions extended for persons aged 70-75

If you satisfy the "work test", you can continue to make deductible contributions after age 65 until age 75. The "work test" is 40 hours work in a 30-day period, in a financial year. Previously persons aged between 70 and 75 could only make 9%

superannuation guarantee contributions or undeducted contributions.

4. Contribution Limits – Deductible Contributions

After 30 June 2012 deductible contributions for all persons under age 75, will be limited to \$50,000 (indexed).

The contribution limits from 1 July 2007 will be indexed to inflation, and rounded to the nearest \$5,000.

From 1 July 2007, deductible contribution limits apply per person per annum. Under the current rules, it is possible for a person employed by two unrelated employers to have maximum deductible contributions paid by both employers in a single year, thus resulting in a superannuation contribution of \$210,226 in the 2006/07 year.

The maximum deductible contribution limits for the current year are compared to the new limits as set out below.

1 July 2006 - 30 June 2007		1 July 2007 - 30 June 2012		
Age 0 - 35	\$15,260	Age 0 - 50	\$50,000	indexed
Age 35 - 50	\$42,385	Age 50 - 75	\$100,000	non-indexed
Age 50 - 75	\$105,113			

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**HELPING
 ACHIEVERS IN
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Thought for the Day

'... Old age isn't so bad when you consider the alternative...' Maurice Chevalier quoted in his biography by M Freedland, Chapter 20.

Planning to Benefit from Superannuation Changes Continued

From 1 July 2007 the Australian Taxation Office will track the amount of contributions received by funds on behalf of each person, regardless of the source of the contributions. Contributions received in excess of the annual limit will be taxed at the top marginal tax rate.

5. Contribution Limits – Undeducted Contributions

There was previously no limit to the amount of undeducted contributions that could be made to superannuation. However, from 1 July 2007, undeducted contributions are limited to a \$150,000 per person per annum – although it will be possible to make a single contribution of \$450,000 in one year, with no contributions in the following two years.

A transitional rule applies for the period 10 May 2006 to 30 June 2007, allowing undeducted contributions of up to \$1,000,000.

The following table shows the maximum contributions a person could make to super as they approach age 65, assuming the “work test” referred to above is not met after this age.

The \$1,000,000 amount assumes no

undeducted contributions were made in the period 10 May 2006 to 30 June 2006. The \$1,000,000 limit for the year ended 30 June 2007 is reduced by the amount of any undeducted contributions made between 10 May 2006 and 30 June 2006.

The \$100,000 deductible contribution is not subject to indexation. Both the undeducted contribution limits and the \$50,000 deductible contribution limits are indexed.

Contributions in excess of the contribution limits will be taxed at the top marginal tax rate. The tax will be levied on the individual, who will nominate a fund to release monies to pay the tax liability.

6. Contribution Limits – Sale of Small Business Proceeds

In addition to the annual contribution limits described above, there is a lifetime contribution limit of \$1,000,000 from the proceeds of the sale of a small business.

7. Simplification of Pension Rules

From 1 July 2007 a new simplified superannuation pension will be available. The terms of the new pension are that a pensioner must draw at least a minimum percentage

of their superannuation account balance each year. There is no maximum limit on the pension. The new pension rates are:

Age Range of Account Balance	Minimum %
55 - 64	4%
65 - 74	5%
75 - 79	6%
80 - 84	7%
85 - 89	9%
90 - 94	11%
95	14%

Conclusion

These changes provide compelling reasons to maximize superannuation. When you consider that after 1 July 2007 both the income earned by a pension fund, and the pension paid to a person aged over 60, are exempt from tax, there is no better retirement structure than superannuation to provide your income in retirement. With good planning, it may be possible that a retired person over 60 years of age will no longer pay any income tax.

The \$1,000,000 undeducted contribution limit for 2006/07 is a one-off opportunity to boost superannuation, particularly if you are nearing retirement. But there are still opportunities beyond 1 July 2007 to increase retirement savings within the revised annual contribution limits, and the \$1,000,000 small business limit.

If you would like further information on the superannuation changes contained in this newsletter, please contact Stephen Maher.

Year End	Age	Undeducted	Deductible
30 June 2007	57	\$1,000,000	\$105,113
30 June 2008	58	\$450,000	\$100,000
30 June 2009	59	-	\$100,000
30 June 2010	60	-	\$100,000
30 June 2011	61	\$450,000	\$100,000
30 June 2012	62	-	\$100,000
30 June 2013	63	-	\$50,000
30 June 2014	64	\$450,000	\$50,000