



The Federal Government's simpler super fact sheet

On 15 March 2007, the *Tax Laws Amendment (Simplified Superannuation) Act 2007* and related legislation received Royal Assent, with the effect of making many of the Federal Government's "Simpler Super" proposals law.

Please find below a summary of the major changes as they stand on 18 April 2007 in taxed accumulation superannuation funds like First State Super. Most changes are due to take effect on 1 July 2007, unless stated otherwise.

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Contribution rules

For employers

- ▶ Mandated (compulsory) employer contributions can be made until age 75.
- ▶ The Superannuation Guarantee (SG) will continue to apply only until age 70.
- ▶ Existing age-based deduction limits will be abolished with effect from 1 July 2007, and employers will be able to claim a tax deduction for 100% of the superannuation contributions they make for an employee.

For members

- ▶ Annual contributions caps have been introduced, and higher tax will be payable by the individual should the amount of contributions made in the financial year exceed the applicable cap.
- ▶ Annual contribution caps apply to both:
 - **concessional contributions** – generally, employer contributions (including salary sacrifice contributions) and contributions made by self-employed persons for which they claim a tax deduction; and
 - **non-concessional contributions** – generally, personal after-tax contributions.

For the self employed

- ▶ The self employed are eligible to claim a deduction for 100% of all superannuation contributions, in the same way as contributions made by employers for the benefit of employees.
- ▶ In order to claim a tax deduction for contributions, a self-employed person must sign a declaration stating that the member intends to claim a deduction. A deduction cannot be claimed if the declaration is lodged after the earlier of the time the person lodges their relevant income tax return and the end of the financial year following the year in which the contribution was made.
- ▶ Eligible self employed persons will have access to the Government co-contribution scheme.



Concessional contribution caps

- ▶ A concessional contribution cap will apply from 1 July 2007.
- ▶ The cap will be \$50,000 for the 2007-08 financial year, with transitional rules for those above or turning 50 before 30 June 2012.
- ▶ The \$50,000 cap will be indexed to Average Weekly Ordinary Times Earnings but will only increase in a year if the increase in the indexed amount is greater than \$5,000, and will be rounded down to the nearest \$5,000.
- ▶ A provision for tax of 15% will be deducted from concessional contributions when they are received by the fund.
- ▶ The individual will be personally liable for additional tax at 31.5% on concessional contributions in excess of the applicable concessional contributions cap (on top of the 15% paid by the fund).
- ▶ Concessional contributions over the cap will also be counted towards the member's non-concessional contribution cap.

The liability for excess concessional contributions tax will be levied on the individual who may choose to lodge a Release Authority with a superannuation fund, directing the trustee to release an amount up to the tax liability.

What are concessional contributions?

Concessional contributions include any contributions which are subject to tax in the fund, such as Superannuation Guarantee (SG), award, salary sacrifice and other employer voluntary contributions. For self employed persons, any personal contributions made for which you claim a tax deduction will also be concessional contributions.

The following types of taxable contributions are not concessional contributions:

- ▶ Rollovers from untaxed superannuation funds.
- ▶ Up to \$1 million of the taxable component of directed termination payments specified in employment contracts as at 9 May 2006 provided the payment is made before 1 July 2012.
- ▶ Certain amounts transferred from a foreign superannuation funds.

Transitional rules – concessional contributions

While a concessional contribution cap of \$50,000 per person per year will apply for the 2007-2008 financial year (indexed), a 5-year transitional period will apply for people aged 50 or more before 30 June 2012. The transitional \$100,000 cap will not be indexed.

If aged 50 and over in the financial year:	Maximum concessional contribution taxed at 15%
2007–2008	\$100,000
2008–2009	\$100,000
2009–2010	\$100,000
2010–2011	\$100,000
2011–2012	\$100,000

Non-concessional contribution caps

- ▶ A non-concessional contribution cap of \$150,000 per person will apply for the financial year commencing 1 July 2007. A transitional non-concessional contribution cap of \$1 million applies for the period from 10 May 2006 to 30 June 2007 (see next page).
- ▶ From 1 July 2007, people under age 65 will be able to bring forward up to two year's worth of non-concessional contributions.





- ▶ Superannuation funds will be prohibited from accepting any single non-concessional contribution which by itself is in excess of:
 - for a person under age 65 – three times the non-concessional contributions cap (eg. \$450,000 in the 2007-2008 financial year), or
 - for a person aged 65 to 74 – the non-concessional contributions cap (eg. \$150,000 in the 2007-2008 financial year).
- ▶ Once a person turns age 65 they will only be able to make non-concessional contributions if they satisfy the Work Test. The current rules prohibiting contributions by people aged 75 and over will remain. If the work test is satisfied a person of the age of 65 and under 75 can make non-concessional contributions of \$150,000 for the 2007-2008 financial year.
- ▶ The non-concessional contribution cap will remain three times the concessional contribution cap.
- ▶ Non-concessional contributions made after 5 April 2007 will not be eligible for contribution splitting with a spouse.

The member will be taxed on non-concessional contributions in excess of the non-concessional contributions cap at 46.5%. The liability for this tax will be levied on the individual who must lodge a Release Authority with a superannuation fund, directing the trustee to release monies to pay the tax liability. The balance of the excess contribution will be able to remain in the fund.

What are non-concessional contributions?

Non-concessional contributions are generally:

- ▶ personal after tax contributions (formerly called undeducted contributions); and
- ▶ any excess concessional contributions, and
- ▶ any contribution made to a superannuation fund that is not included in the assessable income of the fund.

The following types of contributions are not non-concessional contributions:

- ▶ Federal Government co-contributions.
- ▶ Amounts up to a lifetime cap of \$1,000,000 (indexed) (from the sale of qualifying small business assets (eg. asset that had been held for 15 years or more by the member). This includes contributions of up to \$500,000 that arise from meeting the Capital Gains Tax retirement exemption for small business.
- ▶ The entire sum from a payment for personal injuries resulting in permanent incapacity, the contribution must be paid to a superannuation fund within the later of 90 days of payment being received or the structured settlement or court order coming into effect.

Transitional rules – non-concessional contributions

A transitional non-concessional contribution cap of \$1 million in respect of contributions made between 10 May 2006 and 30 June 2007 is available to all individuals eligible to contribute to superannuation in the relevant year. Deductible contributions in excess of the age-based limits also count towards the non-concessional contribution cap of \$1 million.

Individuals can lodge a request for transitional release of any excessive non-concessional contributions made on or after **10 May 2006** and up to **6 December 2006** with the Australian Taxation Office. The application must be lodged prior 30 June 2007. The *Requesting a transitional release authority (NAT 70579)* form is available from ATO (phone 13 10 20).

All excess contributions made after **6 December 2006** are kept by the superannuation fund and the individual will be subject to tax on the contributions at the rate of 46.5%.



Tax File Number provisions

- ▶ Where a Tax File Number (TFN) is quoted for employment purposes the employer must pass it on to the employees' superannuation fund. Generally, the employer must pass the TFN onto the employee's superannuation fund within 14 days of the TFN being quoted.
- ▶ A superannuation fund will **not** be able to accept, and must return any contributions (other than employer contributions) made for a person who has not provided their tax file number to their superannuation fund. The fund has 30 days to obtain the TFN, after which time it will return the contribution.
- ▶ A superannuation fund will be liable for additional tax on any concessional contributions received for a member who has not provided their tax file number by the end of the financial year in which the contribution is made. This will give people until 30 June 2008 to quote their TFN if they have not already done so before the additional tax need apply.
 - If the member withdraws or transfers all or part of their benefit from the fund prior to 30 June 2008 without first providing their tax file number, the fund may withhold the additional tax at the time of benefit payment.
- ▶ If no TFN is provided for the member by the end of the financial year and the account was established:
 - before 1 July 2007 and concessional contribution amounts were \$1,000 or more – all concessional contributions will be subject to additional tax in the fund at 31.5%, or
 - on or after 1 July 2007 – all concessional contribution amounts will be subject to additional tax in the fund at 31.5%.
- ▶ If the member provides their TFN within 3 financial years after the year in which the contribution was made, the fund will be able to claim back the additional tax from the ATO in the fund's next tax return. **However**, tax may not be refunded to the fund for some time after a TFN has been provided. Members will not be able to claim for any loss of investment earnings on tax deducted from contributions.

Transfer of benefits between funds

A new 'standardised' transfer form will be introduced to smooth the progress of transfers between funds. The standard form will be used to request a rollover of a superannuation benefit from one fund to another fund. The form includes standard proof of identity requirements and will help reduce processing delays.

Funds will now be required to process transfer requests out of the fund within 30 days. The 30 day period commences once a properly completed form and accompanying identification documents have been received by the paying fund.

Tax on superannuation payments

- ▶ Superannuation benefits paid either as a lump sum or as an income stream, such as a pension, will be tax free when paid to a member aged 60 or over.
- ▶ Full withdrawals of superannuation lump sum benefits under \$200 will be tax free.
- ▶ Superannuation benefits taken by members under age 60 may be subject to tax but generally with less tax payable on certain components (see table below).
- ▶ Reasonable benefit limits (RBLs) for superannuation are to be abolished. Generally, amounts in excess of a member's RBL are currently taxed at 38% (plus the Medicare levy).



Taxation of lump sum benefits from taxed funds#

Component	Current tax treatment	From 1 July 2007
Pre-July 1983	5% taxed at marginal tax rate	Forms crystallised segment of the Tax free component (see below)
Concessional	5% taxed at marginal tax rate	
Undeducted Contributions	Exempt	
Post-June 1994 invalidity	Exempt	
Capital gains tax exempt	Exempt	
Non-qualifying	Marginal tax rate	Taxable component (see next table)
Post-June 1983	Taxed as per next table	
Excessive	38%	Abolished

Taxation of the post-June 1983 component from taxed funds#

Taxpayer's age	Current tax treatment (Post-June 1983)	From 1 July 2007 (Taxable component)
Under 55 [^]	20%	20%
Age 55–59 [~]	Up to threshold* 0% Over threshold* 15%	Up to threshold* 0% Over threshold* 15%
Age 60 and over	Up to threshold* 0% Over threshold* 15%	Exempt

Medicare levy (currently 1.5%) is to be added to rates shown (except a nil rate).

[^] From 1 July 2007 the threshold will apply to benefits paid to people under their preservation age instead of age 55.

[~] From 1 July 2007 the threshold will apply to benefits paid to people over their preservation age instead of age 55.

* Threshold 2006/2007 = \$135,590. For the 2007/2008, a threshold of \$140,000 may apply to the taxable component of a lump sum superannuation benefit and indexed to Average Weekly Ordinary Times Earnings in \$5,000 amounts.

Calculating the tax-free component

The tax free component of a superannuation benefit will be made up of:

- ▶ a contributions segment; and
- ▶ a crystallised segment.

The contributions segment generally will be made up of contributions made from 1 July 2007 that have not been subject to tax in the fund (non-concessional contributions).

Funds will be required to crystallise the old concessional tax components of a superannuation benefit as if a benefit was paid on 30 June 2007. The old concessional tax components are:

- ▶ the pre-July 1983 component;
- ▶ the concessional component;
- ▶ the undeducted component;
- ▶ the post-June 1994 invalidity component; and
- ▶ the capital gains tax exempt component.

Superannuation funds will have until 30 June 2008 to finalise the crystallisation of the pre-July 1983 component. Once calculated, the crystallised segment will not change in the future and will form part of the new tax-free component.

Members with an Eligible Service Date prior to 1 July 1983 may wish to consider consolidating multiple superannuation accounts before 30 June 2007 so that the earliest Eligible Service Date can be applied to create a larger tax free component.

Payments of benefits

When a payment of a superannuation benefit is made (in part or in full) from 1 July 2007, the benefit will include the same proportion of tax-free and taxable components as these components make up the total benefit. This will apply to both lump sums and pensions. For example if a member's total benefit is made up of a 10% tax-free component and a 90% taxable component, then any part payment will contain a 10% tax-free component and a 90% taxable component.



Tax payable on death benefits

Lump sums

A lump sum death benefit payment will be tax free if paid to a person who is a dependant as defined by *Income Tax Assessment Act 1997 (ITAA 1997)*. If the lump sum death benefit is paid to a non-dependant, the taxable component will be taxed at 15% (no tax is payable on the tax free component).

A dependant under the ITAA 1997 is:

- ▶ A spouse or former spouse,
- ▶ A child under 18 years of age,
- ▶ A person with whom the deceased had an interdependency relationship, or
- ▶ Any other person who was financially dependant on the deceased just before he or she died.

Income streams

The taxation of a death benefit paid as a reversionary pension will depend on the age of the primary and reversionary beneficiary. If the primary beneficiary was aged 60 or over at the time of death, then payments to the reversionary beneficiary will be tax free.

If the reversionary beneficiary is under age 60 at the time of death, the taxable component of the pension will be taxed at the reversionary beneficiary's marginal tax rate. However, the reversionary beneficiary will be entitled to a 15% tax offset. The pension becomes tax free when the reversionary beneficiary reaches age 60.

Employment Termination Payments

- ▶ From 1 July 2007 Employment Termination Payments can no longer be rolled over into superannuation funds, unless they are:
 - specified in an existing employment contract as at 9 May 2006; and
 - payment is made prior to 1 July 2012.
- ▶ Under these transitional arrangements the taxable component of the Employer Termination Payment will be taxed at 15% up to \$140,000 (indexed) (30% if under 55), 30% up to a maximum of \$1 million and the top marginal rate plus Medicare levy for any further amounts.
- ▶ Transitional Termination Payments that are contributed to a superannuation fund will be treated as a taxable contribution to the fund and taxed at 15%. The contributed amount above \$1 million will be subject to the contribution caps and excess contribution taxes.

Payment rules

Compulsory cashing of superannuation removed

Forced payment of superannuation benefits once a person reaches a particular age was removed effective from 10 May 2006. Under the old rules, for amounts to remain in superannuation funds past the age of 65 a work test had to be met and once over age 75 all benefits had to be paid out. Now, benefits will be able to remain in funds like First State Super until the member's death.

Unclaimed monies sent to the tax office

The way unclaimed money is determined and where it is to be sent also changes. From 1 July 2007 unclaimed money is an amount payable to a member where:

- ▶ the member has reached the eligibility age for a benefit to be paid (age 65); **and**
- ▶ the fund has not received an amount in respect of the member for at least two years; **and**
- ▶ after the end of a period of 5 years since the fund last had contact with the member, **and**
- ▶ the fund has been unable to contact the member again after making reasonable efforts.

From 1 July 2007 unclaimed monies will be sent to the Australian Taxation Office (rather than the various State and Territory unclaimed money offices).



Pension rules

Allocated pensions and transition to retirement allocated pensions have been replaced with account based pensions and transition to retirement income streams.

- ▶ If a person takes an account based pension, there will be no maximum payment but a minimum amount must still be taken each year. Allocated pensions commenced on or after 20 September 2007 must comply with the new account based pension standards. However, funds can choose to issue account based pensions from 1 July 2007.
- ▶ If a person takes a transition to retirement income stream, a minimum amount must be taken each year in accordance with the account based pension rules. Further, payments in a year will be limited to a maximum of 10% of the account balance at the start of the year (or in the first year, the account balance at the start date for the pension) and lump sum withdrawals (commutations) can only be made in limited circumstances.
- ▶ No tax will be payable on income stream amounts received after reaching age 60. This will also apply to pensions which commenced before 1 July 2007. There will be no RBL.
- ▶ For those over preservation age but under age 60 in receipt of an income stream, payments continue to be taxed at marginal tax rates (with a 15% tax offset on the taxable amount). For income streams starting from 1 July 2007, the tax free amount will include the crystallised pre-July '83 component. This may reduce tax payable on these income streams.
- ▶ When the pensioner dies, the income stream can generally only revert to one of their dependants or be cashed as a lump sum.
- ▶ From 20 September 2007 the pension assets test taper rate will be reduced to \$1.50 per fortnight (currently \$3) for every \$1,000 of assets above the free area.
- ▶ The current 50% assets test exemption for purchased complying income streams will be removed from new income streams commencing under the new rules. Existing income streams will retain the assets test exemption they previously held (if applicable). The current age pension income test treatment of superannuation income streams will remain unchanged.

From 20 September 2007 (or from 1 July 2007 if a fund chooses) an account based income stream will be required to make at least an annual minimum payment. The payment is an age based percentage of the income stream account balance:

Age	% of Account balanced income stream
Under 65	4
65-74	5
75-79	6
80-84	7
85-89	9
90-94	11
95 +	14

More information

More information is also available on the Australian Government's simplified super site at www.simplersuper.treasury.gov.au or by calling the Australian Taxation Office on 13 10 20.

It is recommended that you consult a licensed or authorised financial adviser if you require financial advice which takes into account your personal circumstances.

Important Note: This communication contains general information only and does not take in to account your personal objectives, financial situation or needs. It is therefore important before deciding whether to become a member of First State Super (or, if you are already a member, to continue your membership) that you consider the First State Super Product Disclosure Statement (PDS) having regard to your own situation. The PDS is available by visiting www.firststatesuper.com.au or by calling 1300 650 873 for a copy. The information contained in this document is current as at 18 April 2007. FSS Trustee Corporation (ACN 118 202 672, AFSL 293340, RSE L0002127), is the trustee of the First State Superannuation Scheme (ABN 53 226 460 365, RSE R1005134, SPIN FSS 0100AU).