



Budget 2016



Superannuation Reform:

Annual non-concessional contributions cap

From 1 July 2017, the Government will lower the annual non-concessional (post-tax) contributions cap to \$100,000 and will introduce a new constraint such that individuals with a balance of \$1.6 million or more will no longer be eligible to make non-concessional contributions. As is currently the case, individuals under age 65 will be eligible to bring forward 3 years of non-concessional contributions. The new annual cap with the eligibility threshold replaces the lifetime \$500,000 non-concessional contributions cap announced in the 2016-17 Budget.

This will better target tax concessions to ensure that the superannuation system is equitable and sustainable, ensuring those who have saved well in excess of what is required to be self-sufficient in retirement are not able to continue to access further concessional tax treatment. It will also provide flexibility recognising that non-concessional contributions are often made in large lump sums.

The issue

Individuals can currently make non-concessional contributions of \$180,000 per year, or \$540,000 every three years for individuals under 65. These non-concessional contributions are generally voluntary contributions into superannuation made out of an individual's post-tax income. Earnings on these contributions are taxed at a flat rate of 15 per cent in accumulation accounts and then are tax free when transferred into a retirement account. In both cases, the tax treatment of earnings on these non-concessional contributions is highly concessional.

The details

From 1 July 2017, the Government will lower the annual non-concessional contributions cap to \$100,000, which is four times the annual concessional contribution cap, with a three year bring forward (\$300,000) for those aged under 65. Where an individual's total superannuation balance is \$1.6 million or more they will no longer be eligible to make non-concessional contributions.

The \$1.6 million eligibility threshold will be based on an individual's balance as at 30 June the previous year. This means if the individual's balance at the start of the financial year (the contribution year) is \$1.6 million or more they will not be able to make any further non-concessional contributions. Individuals with balances close to \$1.6 million will only be able to bring forward the annual cap amount for the number of years that would take their balance to \$1.6 million.

Transitional arrangements will apply. If an individual has not fully used their non-concessional bring

forward before 1 July 2017, the remaining bring forward amount will be reassessed on 1 July 2017 to reflect the new annual caps.

As is currently the case, individuals aged between 65 and 74 will be eligible to make annual non-concessional contributions of \$100,000 if they meet the work test (that is they work 40 hours within a 30 day period each income year), but will not be able to access the bring forward of contributions.

The annual cap will be linked to indexation of the concessional contributions caps. The \$1.6 million eligibility threshold will be indexed as per the transfer balance cap.

Non-concessional contributions to defined benefit schemes and constitutionally protected funds will be subject to the revised caps. For details of the treatment of defined benefit scheme members see Superannuation Fact Sheet 5.

Budget Impact

The measure is estimated to improve the underlying cash balance by \$200 million over the forward estimates.

Eligibility threshold

Individuals are eligible to make non-concessional contributions where their total superannuation balance is less than \$1.6 million. Where their balance is close to \$1.6 million, they will only be able to make a contribution in that year and access the bring forward of future years contributions that would take their balance to \$1.6 million.

| Superannuation Balance | Contribution and bring forward available |
|-------------------------|--|
| Less than \$1.3 million | 3 years (\$300,000) |
| \$1.3 - <\$1.4 million | 3 years (\$300,000) |
| \$1.4 - <\$1.5 million | 2 years (\$200,000) |
| \$1.5 - <\$1.6 million | 1 year (\$100,000) |
| \$1.6 million | Nil |

Transitional arrangements

Where an individual has made a non-concessional contribution in 2015-16 or 2016-17 and that triggers the bring forward, but has not fully used their bring forward before 1 July 2017, transitional arrangements will apply so that the amount of bring forward available will reflect the reduced annual contribution caps. Where the non-concessional contribution bring

forward was triggered in 2015-16, the transitional cap will be \$460,000 (the annual cap of \$180,000 from 2015-16 and 2016-17 and the \$100,000 cap in 2017-18). If the bring forward was triggered in 2016-17, the transitional cap will \$380,000 (the annual cap of \$180,000 in 2016-17 and \$100,000 cap in 2017-18 and 2018-19).

| 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|--|--|
| More than \$460,000 | | Nil | End of transition period \$100,000 or 3 year bring forward | - |
| More than \$180,000 but less than \$460,000 | Cannot exceed \$460,000 from 2015-16 to 2017-18 | | End of transition period \$100,000 or 3 year bring forward | - |
| - | More than \$380,000 | Nil | Nil | End of transition period \$100,000 or 3 year bring forward |
| - | More than \$180,000 but less than \$380,000 | Cannot exceed \$380,000 from 2016-17 to 2018-19 | | End of transition period \$100,000 or 3 year bring forward |

For example, if you make a contribution to access the bring forward in 2016-17, the bring forward amount available in later years is \$380,000 (see example 1 and 2). If you made a contribution in 2015-16, the bring forward amount will be \$460,000 (see example 3).

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|-----------|-----------|-----------|-----------|-----------|
| 1 | | \$200,000 | \$180,000 | Nil | \$100,000 |
| 2 | | \$200,000 | \$90,000 | \$90,000 | \$100,000 |
| 3 | \$200,000 | \$200,000 | \$60,000 | \$100,000 | Nil |

Cameo – Kylie

Kylie's superannuation balance is \$500,000. She sells an investment property and makes a non-concessional contribution to her superannuation of \$200,000 in October 2017. As Kylie has triggered her bring forward, she would be able to make a further non-concessional contribution of \$100,000 in 2018-19. In 2020-21 her non-concessional contribution caps would reset and she could make further contributions from then.

Cameo – Molly

Molly is 40 and has a superannuation balance of \$200,000. In September 2016, she receives an inheritance of \$250,000, which she puts into her superannuation. This triggers her three year bring forward. From 1 July 2017, as the cap has been lowered, Molly would be able to make further non-concessional contributions of up to \$130,000, taking her to the new bring forward amount of \$380,000. Molly makes a non-concessional contribution of \$110,000 in 2017-18 and \$20,000 in 2018-19. She can then access the new bring forward from 2019-20 and contribute up to \$300,000 in non-concessional contributions.

Cameo – Eamon

Eamon has a total superannuation balance of \$1.45 million. He can make a non-concessional contribution in 2017-18 of \$200,000. He cannot access the full three year bring forward as this would take his balance over \$1.6 million. Eamon would also not be able to make any further non-concessional contributions.

Cameo – Gary

Gary is a 72 year old retiree who works around 40 hours in September every year and has a superannuation balance of \$450,000. As Gary meets the work test, he can make a non-concessional contribution of \$100,000 in 2017-18. However, as Gary is aged over 65 he cannot access the three year bring forward.