Budget 2016

JOBS & GROWTH

Superannuation Reform:

Extending the spouse tax offset

The Government will extend the current spouse tax offset to assist more couples to support each other in saving for retirement. This will better target superannuation tax concessions to low income earners and people with interrupted work patterns.

The issue

The superannuation system offers little flexibility for those who take time out of work, work part time, or have 'lumpy' income and therefore have periods in which they make no or limited contributions to superannuation.

Many working Australians, especially women, take time out of the workforce to raise children or care for a relative. Many return to work part-time.

This contributes to women having lower superannuation balances. In 2013-14 the average superannuation balance for a woman was around 74 per cent of the average superannuation balance for a man.

Although women are more likely to have interrupted work patterns, they also have a longer life expectancy than men and need higher superannuation balances to support a longer retirement.

The details

From 1 July 2017, the Government will extend the eligibility rules for claiming the tax offset for superannuation contributions partners make to their low income spouses.

The current 18 per cent tax offset of up to $540 will be available for any individual, whether married or de facto, contributing to a recipient spouse whose income is up to $37,000. This is an increase from the current $10,800. As is currently the case, the offset is gradually reduced for income above this level and completely phases out at income above $40,000.

No tax offset will be available when the spouse receiving the contribution has exceeded their non-concessional contributions cap or their balance is $1.6 million or more.

There are no changes to the current aged based contribution rules. The spouse receiving the contribution must be under age 70, and meet a work test if aged 65 to 69.

Budget impact

This measure is estimated to decrease the underlying cash balance by $10 million over the forward estimates.

Cameo — Anne and Terry

Anne earns $37,500 per year. Her husband Terry wishes to make a superannuation contribution on Anne's behalf.

Under the current arrangements, Terry would not be eligible for a tax offset as Anne's income is too high. There is no incentive for Terry to make a contribution on behalf of Anne.

Under the new arrangements, Terry would be eligible to receive a tax offset.

As Anne earns more than $37,000 per year, Terry will not receive the maximum tax offset of $540. Instead, the offset is calculated as 18 per cent of the lesser of:

- $3,000 reduced by every dollar over $37,000 that Anne earns, or
- the value of spouse contributions.

For example, Terry makes $3,000 of contributions and Anne earns $500 over the $37,000 threshold. Terry receives a tax offset of $450: 18 per cent of $2,500, as this is less than the value of the spouse contributions ($3,000).

If Anne were to earn more than $40,000 there would be no tax offset.