WHAT HAPPENED TO SIMPLER SUPER?

In 2007 the government implemented major reforms to “implement a simplified and streamlined superannuation system”. Here we are 16 years later, and super rules are probably the most complex we’ve seen in our careers.

One thing is certain, governments will continue to ‘tweak’ the rules…they need the tax dollars! However this should not deter people from making contributions to super to save for retirement. The tax benefits of superannuation are still very generous if you understand the benefits of the system. They need to be generous to incentivise us to forgo today’s cashflow and make contributions for future self-reliance. This in turn reduces reliance on social security payments, which is the fundamental reason why superannuation exists. This article looks at some changes to caps occurring on 1 July 2023, as well as proposed changes for higher account balances.

Total Super Balance (TSB) cap to increase

Your TSB is the sum of all amounts you have in the superannuation system. Generally, it includes:

- your accumulation account balances
- your superannuation pension accounts, and
- the outstanding balance of a Limited Recourse Borrowing Arrangement (if you have a self-managed super fund which has borrowed to invest), in certain circumstances.

Exceptions and modifications may apply, and calculating TSB can be complex, so it is important to seek advice. A useful source of information is your myGov account.

The TSB threshold is $1.7m in 2022/23 and increasing to $1.9m in 2023/24 as a result of the way the indexation works. It is the threshold at which no further Non Concessional Contributions can be made if your prior 30 June TSB equals or exceeds this threshold. It also impacts eligibility to make larger Non-Concessional Contributions (personal contributions) and trigger the bring forward rules on account balances nearing the cap. From 1 July 2023 those with balances of $1.48m to $1.9m will be able to make larger contributions as a result.

General Transfer Balance Cap (TBC) to increase

The Total Super Balance discussed above affects how much can be contributed into super. However, the Transfer Balance Cap determines how much super can be used to commence a tax-free retirement phase income stream (which for most people is their account based pensions). The TBC is due to be indexed on 1 July 2023 and will increase by $200,000 to $1.9m. Oh yes, that's exactly the same figure as the TSB, but just another acronym to remember!

Another cap proposed

The Government has announced its intention to change tax concessions on certain superannuation accounts if you have a total super balance of more than $3 million. Key aspects to the proposal are:

- It is proposed that for individuals with a 'total super balance' (TSB) that exceeds $3 million, additional tax of 15% will apply on a portion of account earnings. **If your total super balance is less than $3 million, this change will not impact you, and investment earnings on your accumulation balance will continue to be taxed at the maximum rate of 15%**.

- Actual account earnings will not be used to calculate additional tax payable. A simplified method has been proposed to calculate fund earnings and any resulting tax liability. Broadly, this looks at your TSB at the beginning and end of the relevant financial year, adjusted for any contributions (net of contributions tax) and withdrawals that you've made during the year. If instead you're assessed as having a loss for the year, it has been proposed that you'll be able to carry this loss forward to a future year, to offset a tax liability you may have in the future under this proposed regime. So really it's a bit like paying extra capital gains tax even though the underlying asset may not have been sold…and yes, if it is sold, capital gains will still be payable.

- The Government has indicated that the excess tax can be paid personally or by making an election to release the funds from super.

- It is intended that this change will commence on 1 July 2025. The first notices for the additional tax liability will be sent in the 2026/27 financial year.

At the moment, this is a proposal only. Legislation will need to pass to implement the proposal and some of the details about the proposal may….and probably will change.

Why Make Changes?

The fundamental purpose of our superannuation system is to provide income in retirement to reduce reliance on social security (e.g. the Age Pension). It was not designed to be a tax haven or structure to build wealth indefinitely to pass on to multiple generations.

According to The Australian Institute of Health and Welfare[1], as at 26 March 2021, around 2.6 million people received an Age Pension, equating to over 3 in 5 (62%) of the population aged 65 and over. As the qualifying age continues to rise, along with the effects of Covid, between 2018 and 2021, the number of older people receiving the Disability Support Payment increased by 35% and Jobseeker/Newstart Allowance tripled. The economic impact of ageing populations is a key consideration for governments around the world. By 2066, it is projected that the number of people over age 65 in Australia will make up between 21% and 23% of the total population[2].

In a recent article "French fight pension age rise while Aussies work on"[3], Graham Hand compares the street protests by the French in objection to increasing the age pension from 62 to 64 years, in contrast to Australians passively accepting the increase to age 67 which will occur on 1 July 2023. A number of reasons were alluded to for Australians being so accepting of the change, probably in the main due to the increase being legislated eight years before coming into effect. Perhaps too there is an understanding that government spending can only go so far, and confidence in our superannuation system, despite its complexity.

Conclusion

Our government has a difficult task in balancing incentives to contribute to super with disincentivising having 'too much of a good thing' with high balances. Part of the 2007 super reforms involved the abolishment of 'Reasonable Benefit Limits'. At the time, the industry sighed with relief as they were a nightmare to administer. It seems it's back to the future with the proposed tax on earnings for higher balances. Future reforms will no doubt loosen restrictions and simplify the system again. Until then, we will help to provide ongoing guidance and clarification of the rules.

[1] AIHW, 16 September 2021, Australia's Welfare 2021, https://www.aihw.gov.au/reports/australias-welfare/age-pension
[2] ABS (Australian Bureau of Statistics) 2018, Population Projections, Australia, https://www.abs.gov.au/statistics/people/population/population-projections-australia/2017-base-2066
[3] Hand, G, 26 April 2023, Firstlinks, French fight pension age rise while Aussies work on, https://www.firstlinks.com.au/french-fight-pension-age-rise-aussies-work#:~:text=There%20is%20a%20fascinating%20contrast,from%2062%20to%2064%20years

Kate Cramsie
Certified Financial Planner

Kate has been in the industry for over 20 years and is a senior adviser at Logical.

She holds a Bachelor of Business (University of Technology, Sydney), Diploma of Financial Planning (Deakin University) and is a Certified Financial Planner.

Gavin Shepherd
Portfolio Construction & Investment Research Manager

Gavin has been an investment specialist for more than 20 years and is the head of Investment Research at Logical.

Gavin's qualifications include a Masters of Applied Finance (Macquarie University), Masters of Financial Planning (University of New South Wales), Bachelor of Agricultural Economic (Sydney University) and Graduate Diploma of Applied Finance and Investment (Finsia).

Looking for Financial Advice?

In an ever increasingly complex financial and legislative world, our mission is to provide you with clear, concise and tailored strategic advice.

t 02 9328 3322
e team@lfma.com.au
w www.logicalfinancial.com.au

Suite 21, Level 2, 8 Hill Street,
Surry Hills NSW 2010
PO Box 103
Darlinghurst NSW 1300

logical financial management