The Government recently announced its intended changes to superannuation.

Pension tax concessions tightened for earnings over $100,000 pa

- From 1 July 2014 earnings over $100,000 (indexed) on assets supporting a pension in payment phase will be taxed at 15% (currently tax free) ie the same tax rate as applicable during accumulation phase.
- Capital gains will be included as earnings for these purposes subject to a lengthy transitional/restructure period – for assets purchased pre 5 April 2014, only gains accrued after 1 July 2024 are included.
- Issues remain of how to identify $100,000 earnings per person when the person has more than one fund or a defined benefit fund interest, the fund has losses or assets are held indirectly eg through a pooled superannuation trust.

The Government claims that this will only affect 16,000 funds. All and any other commentator is suggesting the number will be much greater. The future impact of capital gains (depending on when they were bought) will be a major factor that will catch many more funds than this. The grandfathering of the capital gains tax adds another level of complexity.

Deferred lifetime annuities

- From 1 July 2014 deferred lifetime annuities will be given the "same concessional tax treatment" as pensions in payment phase. Therefore the first $100,000 income is tax free during the payments phase. Query deferral period income.

This makes good sense.

Concessional contributions cap relaxed

- From 1 July 2014 the $25,000 concessional contributions cap increases to $35,000 for all people aged 50 or over (people aged 60 or over can apply the higher cap one year earlier). This is instead of a previously mooted $50,000 concessional contributions cap for those people aged 50 or over with less than $500,000 of superannuation savings.
- From 1 July this year individuals can withdraw any excess concessional contributions and pay tax on them at marginal rates (plus interest) rather than pay the maximum 46.5% as excess contributions tax.

The increase to $35000 is useful but falls along way short of the $50,000 reasonably expected. Better than leaving the figure at $25,000, so something to be thankful for!
However the $35,000 would not be indexed and so the regular indexed cap would likely reach this level around 2018 anyway.

Excessive contributions cap

- Under the current scheme, contributions in excess of the annual cap are taxed at 46.5% instead of the normal 15% rate. This has been a sore point among the superannuation industry. Now, the individuals will be allowed to withdraw excess concessional contributions made from July 1 2013 from the superannuation fund. Also, the government will tax excess concessional contributions at the marginal tax rate, plus an interest charge. "Treasury estimates that this reform will reduce the tax liability of around 41,000 people in 2013 14, by around $1,300 on average."

This is a good result

Deeming rules for superannuation account-based income streams

- New changes will affect superannuation account-based income streams. Standard pension deeming arrangements will apply to new superannuation account-based income streams assed under the pension income test after January 2015. "All products held by pensioners before January 1, 2015 will be grandfathered indefinitely and continue to be assessed under the existing rules for the life of the product so no current pensioner will be affected, unless they choose to change products". Other arrangements will include extending concessional tax treatments to deferred lifetime annuities and reforming arrangements for lost superannuation.

We have to concede that it does make some sense that once you can access your super capital, that this is then treated the same way as non-super money for Centrelink purposes.

The general consensus is that there is very little chance of them getting much (if any) of this through parliament before the election in September. Given that every poll taken over recent months suggests there will be a change of Government in September one wonders whether there is any real reason to review and understand the "proposed changes". We have nonetheless provided the above summary.