



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 more than \$1.6 million 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 above \$1.6 million 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 more than \$1.6 million 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. However, defined benefit members may not have the same flexibility as accumulation members to avoid making non-concessional contributions or to withdraw excess contributions from the fund. As is the case with all other Budget superannuation measures, broadly commensurate treatment will apply to members of defined benefit schemes.