Tynan Partners

Superannuation Bulletin

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Our view on the likelihood of changes to Superannuation

There has been considerable media attention on Superannuation recently, which has led to a variety of predictions involving broad scale changes to Super in Australia.

With the Federal Budget fast approaching, we look at some of the more contentious issues being discussed and share our opinion of what changes, if any, may occur with regard to Superannuation legislation in Australia.

Issue: Preservation

The primary disadvantage with superannuation has always been the lack of access. The tax advantages are significant at any age, but the "price" you pay for the tax breaks is a loss of access (i.e. the funds are "preserved") until a certain age is attained. Originally that age was 55 and that remains for anyone born before 01/07/1960, however a gradual increase in the preservation age now applies after that date such that those born after 30/06/1964 are not able to access their superannuation until reaching age 60.

It would seem almost certain that this preservation (or access) age will be pushed out over coming years so that lump sum access may not be available until Age Pension age eligibility is reached (currently 67 for anyone born after 1956 and proposed to increase to 70 for those born after 1965).

Our View: There is no chance that anyone who currently has access to their superannuation will ever lose that capability. Preservation ages will be pushed out in coming years and we would expect this to lead to more people building an investment portfolio outside of the superannuation environment.

Issue: Transition To Retirement Pensions (TTRP)

Peter Costello introduced these in 2007 as a way to assist people over preservation age (at that time 55) to continue to work, often in a reduced or part-time capacity, for longer. It is hard to imagine how preservation ages can continue to be pushed out as detailed above without retaining TTRP's. However, much as Governments might want people to work longer, the reality is many people over 55 and 60 may find it difficult to find employment; many may not be physically capable of work and as such the income top up that the restricted access to a TTRP provides is likely to become increasingly important.

Our View: We would expect TTRP's to be retained as part of the superannuation landscape and eventually they may have to be "decoupled" from normal preservation rules.

Issue: Contributions Tax

Concessional contributions to superannuation (those for which some-one is claiming a tax deduction) are limited to $30,000 per annum or $35,000 for those over age 50. Historically, a 15% tax is paid on these pre-tax contributions and for anyone who is paying tax this represents a reduction against the income tax that would have otherwise been levied and fairly obviously the higher the individual's marginal tax rate the greater the tax saving.

There has always been a bit of tension around high income earners receiving too much benefit and Governments of both persuasions have sought to "even things out" – the super surcharge was a Howard era attempt; vastly reduced concessional limits came with the Rudd Government and since 2012 (Gillard) individuals earning more than $300,000 are levied with an additional 15% tax for their concessional contributions.

Our View: There is likely to continue to be some tax advantage in contributing pre-tax earnings into superannuation

Issue: Taxation of Super Pensions

The assets within a superannuation fund that are being used to fund pensions have always operated in a tax free environment and for the last 15 years have enjoyed the additional benefit of refundable franking credits. Up until June 30 2007, the pension income that was required to be drawn from the fund each year formed part of the personal taxable income of the recipient, but for the last 8 years that has also been tax free.

Ken Henry proposed in his 2010 tax review that all superannuation funds, including those paying pensions, should be taxed within the fund at a rate of 7.5% but the Government of the time elected not to follow this advice. Interestingly, David Murray in his review earlier this year referenced this concept although he mentioned a tax rate of 15% - we prefer Ken Henry's proposal!

There seems to be fairly broad acceptance that it is not sustainable to have so much money operating completely out of the tax system for so long – someone living to 90 can enjoy more than 30 years of totally tax free returns. Notwithstanding this, hopefully there is little chance of individuals again having to include the pension income received in their personal tax returns, which was a complicated and inefficient method.

Our View: We would expect some change in the future along the lines of that originally proposed by Ken Henry.

Issue: Lump Sum Withdrawals

The Super Simplification changes of 2007 saw tax free lump sum withdrawals for anyone eligible over age 60 and no limit on how much could be withdrawn. We have always had the view that this was too good to be true and the fact it is still in place after almost 8 years is a real bonus. It is difficult to change at the moment because there is no longer a maximum amount of pension that applies so a large withdrawal may be treated as a pension rather than a lump sum and there is no tax consequence. A distinction between lump sums and pensions could easily be created by reintroducing some level of maximum annual pension.

Our View: Some limit in terms of annual tax free drawdowns will eventually be introduced and amounts in excess of that would be likely to have some, fairly minor, tax consequence. Governments understandably want to discourage us from drawing too much too soon given increasing longevity.

Our Capabilities

There has always been change around superannuation and unfortunately that will continue into the future – however we are confident it will always be a very tax effective vehicle through which to make investments. The reality is that tax concessions associated with superannuation represent a big component of Government expenditure, and with 80% of those over 65 receiving some Age Pension from the Government, **change will happen**.

Our team at Morgans Tynan Partners includes two highly experienced and qualified financial planners, Ray Walter and Michael Borjesson. Ray and Michael assist their clients across a range of wealth management services, including Superannuation and Retirement Planning.

If you would like to speak to Ray or Michael to ensure that you have a proactively managed superannuation strategy, please feel free to contact them using the details below.

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