Federal Budget Update

How the Budget may affect retirees and pre-retirees

Federal Budget Update 2016–17

What you need to know

- No material changes to the Age Pension
- No material changes to Aged Care
- Sweeping super changes designed to increase the retirement savings of low-to-middle income earners including women
- Scaling back superannuation concessions to high income earners
- Capping annual concessional super contributions at $25,000 – down from $30,000 for individuals under age 50 and $35,000 for individuals aged 50 and over
- Removal of tax exemption on earnings of assets supporting Transition-to-Retirement Income Streams
- Introduction of a lifetime cap of $500,000 on non-concessional (after-tax) contributions
- Concessional contributions taxed at 30 per cent for individuals earning above $250,000 – down from the current threshold of $300,000
- Introduction of a super transfer balance cap of $1.6 million to limit the amount of accumulated savings an individual can transfer into the tax-free retirement phase
- Removal of restrictions on people aged 65 to 74 to make super contributions
- Any person under age 75 will be allowed to claim an income tax deduction for personal super contributions
- Removal of anti-detriment death benefit provisions

Overview

The Turnbull government's first Budget included a number of super changes that may affect retirees and pre-retirees but no material changes to the Age Pension or Aged Care.

Super changes contained in the Budget include a $25,000 annual cap on concessional super contributions; a new lifetime cap of $500,000 on non-concessional contributions; and the removal of the 10 per cent test for personal tax deductible super contributions which will allow all individuals up to age 75, regardless of their employment situation, to make concessional super contributions.

From July 1, 2017, the concessional contributions cap will reduce to $25,000 from the current $30,000 cap for people under age 50 and $35,000 for those aged 50 and over, reducing the effectiveness of concessional contributions as a strategy to boost retirement savings.

However individuals with less than $500,000 in super who have not used their concessional contributions cap in previous years will be allowed to carry forward unused amounts for 5 years.

Furthermore, the government will introduce a new lifetime cap of $500,000 on non-concessional contributions, replacing the current cap of $180,000 per year or $540,000 over three years under the bring-forward arrangements.

In line with pre-Budget speculation the government also made changes to Transition-to-Retirement (TTR) income streams by removing the current tax exemption on earnings from July 1, 2017.

That won’t impact on a worker’s ability, once they have reached age 60, to draw a tax free retirement income stream while continuing to work and contribute to super.

However, the Budget will axe the anti-detriment payment on super death benefits from July 1, 2017.

The anti-detriment payment, which represented a refund of a member’s lifetime super contributions tax payments paid to their spouse or child upon their death, was approximately between 13 per cent and 17 per cent of the taxable component of a super death benefit.

Other measures include a 30 per cent tax on concessional contributions for individuals who earn over $250,000 and the introduction of a super transfer balance cap of $1.6 million to limit the amount of accumulated savings an individual can transfer into the tax-free retirement phase.

Incentives to encourage mature Australians to contribute to super

It will be simpler for mature Australians aged 65 to 74 to make voluntary super contributions with current restrictions requiring them to meet minimum work requirements to be lifted from July 1, 2017.

They’ll also be able to receive contributions from their spouse, under proposed changes.

This measure will allow older Australians to boost their retirement savings using sources such as the sale of shares or property.

What’s next?

The vast majority of changes must be legislated and passed through Parliament before they apply.

If you think you may be affected by the Budget’s proposed changes, you should consider seeking professional advice.

A financial adviser can give you a clear understanding of where you stand and how you can manage your cashflow, super and investments in light of proposed changes.

An adviser can also ensure you’re not missing out any new benefits you may be entitled to.

If any of these proposals raise questions contact us today.