

May 2011 Federal Budget – key implications for your super

The Federal Budget proposes some small but significant changes in super. Given the tough stance of the Government this year as they try to reduce the Budget deficit in the future, there was little expectation of any “bonuses” for super members.

While Stronger Super is not materially mentioned as part of the Budget, some provision for it has been made in the Budget. Please refer to our [Stronger Super/Cooper Report fact sheet](#) for detailed information about the proposed Stronger Super reforms – we’ll continue to keep you informed as legislation takes shape.

The Budget also proposes various changes to self-managed super, including an increased Government supervisory levy, registering requirements for auditors, changes to withdrawal rules and a new administrative penalty framework. As these changes don’t affect AvSuper directly, we’ve not covered them here, but you can access the [Federal Government’s Budget website](#) for details on these changes.

We have noted the absence of some expected topics in this Budget, namely the Superannuation Guarantee (SG) employer contribution increase to 12% (proposed to be phased in from 2013), extending SG for workers aged 70 to 74 (proposed from 1 July 2013) and the Government super bonus (for workers earning up to \$37,000 pa from 1 July 2012). However as these are currently under review via other proposed legislation, we expect that the Government will progress them in due course.

Superannuation was mentioned in various areas of the Budget, but primarily as confirmation of previously announced policies rather than anything new. Nevertheless, there are some super implications to consider and we hope that you find this summary helpful in understanding the possible impact on your retirement savings.

Michelle Griffiths
Chief Executive Officer

It is important to note that the Budget inclusions are only proposals at this point.

Generally the announcements made as part of the Budget will have to be passed as legislation before they take effect. Therefore, Budget proposals should not be taken as fact yet, even if a starting date is included.

Some Budget proposals are expected to be phased in over time and have not been explained in detail by the Government yet. As further details become available we will analyse their relevance to AvSuper and report to members as appropriate.

Income Stream payment changes

Since 2009, Income Stream (pension) members have had access to drawdown relief, meaning they could drawdown less than the legislated minimum withdrawal amount each year as an income stream. However, this relief has now been halved for a further year, with members able to withdraw 25% less than their legislated minimum amount during 2011/12. From 1 July 2012, the relief will end altogether and members must withdraw the full legislated minimum amount each year.



Impact for AvSuper (income stream) Members

A reduced drawdown option has assisted many AvSuper income stream members from being required to capitalise losses experienced during the GFC by allowing them to nominate to drawdown less than their minimum withdrawal amount each year. This was particularly useful to members with other sources of income in retirement who could afford to reduce their AvSuper income stream payments.

AvSuper income stream members will each be advised of their 2011/12 minimum withdrawal requirements during July 2011; members currently using the Government's drawdown relief will automatically have their payments adjusted to the new levels for payments made after from 1 July.

Refund of excess concessional contributions

The Government has proposed that from 1 July 2011, members who exceed their [concessional contribution limit](#) by up to \$10,000 (not indexed) may request a refund of those excess contributions to be taxed as income instead of being retained in their super account and taxed at higher levels. At this stage it is expected that the ATO will administer this measure. We understand this refund option will only be available for those members who breach their concessional contributions for the first time.

Any concessional contributions withdrawn using this system will attract the relevant marginal tax rate (eg as salary) which may be less than the 46.5% tax which would otherwise be payable on excess concessional contributions. It is important to remember that any excess concessional contributions also count towards your non-concessional contribution limit so withdrawing this excess may affect both limits.

Impact for AvSuper Members

We have worked closely with our industry associations to lobby strongly to the Federal Government to provide relief from excessive tax imposed on members who inadvertently breach their contribution limits, so this measure is welcome in part. However, the AvSuper Trustee remains concerned that these changes do not go far enough.

We'll continue to represent your interests on this issue in our lobbying efforts and endeavour to contact you when we become aware that you may be approaching your contribution limits and subject to additional tax.

Extended concessional contribution caps for members over 50

From 1 July 2012, a higher [concessional contributions cap of \\$50,000](#) for members aged 50 or more with a total super balance under \$500,000 will apply. This measure is intended to assist these members with making 'catch up' contributions later in life, recognising that many have not had superannuation accumulating for most of their working lives.

The current arrangement of a maximum concessional contribution per year of \$50,000 for members aged 50 or more is due to end on 30 June 2012, so this proposed adjustment effectively preserves a higher limit of concessional contributions for some of these members. There is no change to the annual limit of \$25,000 for members aged under 50.

Impact for AvSuper Members

AvSuper supports measures which enable members to 'catch up' their retirement savings when they are more likely to be financially able to do so. This should be a great outcome for many older AvSuper members who want to put more into their super savings without facing tax penalties.

Members aged 50 and over should take advantage of their ability to make concessional contributions caps of up to \$50,000 before 1 July 2012 regardless of their super balance.

Co-contribution thresholds steady

The Government's co-contribution eligibility thresholds will remain unchanged for an additional year; that is, you need to earn less than \$31,920 pa for the full co-contribution of \$1,000 pa and less than \$61,920 pa for a partial co-contribution.

Securing super provisions

To help members keep track of their super contributions, employers will be required to record the amount of super actually paid to a super fund on each payslip from 1 July 2012. It is also proposed that super funds will also be required to notify employees and employers on a quarterly basis if regular payments cease.

Tax File Numbers (TFNs)

The Government will allow superannuation fund trustees to make greater use of TFNs to locate member accounts (from 1 July 2011) and to facilitate consolidation of multiple member accounts (from 1 January 2012).

Infrastructure

The Budget includes measures to improve opportunities for the private sector and superannuation-sourced investments in infrastructure. It will also increase the quality of infrastructure development, in order to expand capacity and boost productivity. These measures will be achieved by removing impediments to private-sector investment in infrastructure through improved tax provisions.

Increased regulator funding

The Government will provide increased funding to superannuation regulators (APRA, ASIC and the ATO) to introduce MySuper and a number of other system improvements. This measure will be funded by an increase in the annual levy on APRA-regulated super funds, including AvSuper.

Flood levy

The Budget papers confirmed the introduction of a Flood Levy for individuals earning \$50,001 or more. This measure has been announced as a one-off tax for 2011-12 to assist with the rebuilding of areas devastated by floods and Cyclone Yassi. Certain types of payments from super may be considered as income and therefore captured as part of the levy. Further information for individuals is available on the ATO website (www.ato.gov.au/floodlevy)

