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Media Release

Super changes cause for concern for SMSFs

The Federal Government's decision to reduce the concessional contribution cap down to \$25,000 is a backward step that will severely reduce the ability of people to save adequately for retirement.

SMSF Association CEO/Managing Director Andrea Slattery says this decision, when coupled with other flawed measures in the Budget, will send shock waves through an SMSF sector that was hoping the broad parameters of the system had been settled.

"This is clearly not the case with concessional caps being cut to \$25,000 (currently \$30,000 for people aged under 50 and \$35,000 for those 50 and over), and when coupled with other measures represents the most significant changes to the superannuation system since the 2007 Budget.

"We strongly believe that adequate concessional contribution caps are vital to allow people to save for a secure and dignified retirement.

"It is especially important that people approaching retirement have adequate contribution caps to maximise contributions to superannuation when they are most likely to have the financial resources to do so.

"SMSF Association/Rice Warner research shows that people make their most significant contributions to superannuation in a short period once they reach their mid-50s, and need capacity to make these 'top-up' contributions. This change reduces the ability to do that.

"Although this may be ameliorated, to some degree, by the carry forward of unused concessional contributions, which is a welcomed step in making super contributions more flexible, particularly for women and people with broken work patterns, the \$500,000 balance limit on this measure restricts people building truly adequate retirement incomes."

Other measures that concern the Association are:

- Non-concessional contributions are being reduced to a \$500,000 lifetime limit. Although a change to non-concessional contributions was expected in the current fiscal environment, the fact that it includes contributions made since 1 July 2007 adds an unfair element of retrospectivity to the proposed change. It adds significant complexity.
- Tax-free earnings in retirement will be limited to retirement account balances of \$1.6 million. Assuming an earnings rate of 5% a year, this allows people an annual income supported by superannuation of \$80,000 a year. While this is a reasonable amount, it is a complex measure and refining the concessions for retirement phase could be done more efficiently.
- Increased tax on concessional contributions for high income earners (Division 293 tax) has been lowered from people earning \$300,000 and above down to those earning \$250,000 and over. “Although we expected this change and see it as a reasonable targeting of super tax concessions, what makes it disappointing is that’s happening in addition to concessional contribution caps being reduced,” Slattery says.

She says the Association supports the Government’s decision to legislate the objective of superannuation.

“But with what has unfolded tonight, the objectives should have been enshrined before making such significant changes to the tax treatment of super. In addition, we believe that changes to super should have been part of a broader, coherent review of the tax system, rather than singling out one form of savings for changes.”

Slattery says the Government does deserve plaudits for its decisions to remove the 10% rule for personal deductible contributions and the work test for contributions made by people aged between 64 and 75. These decisions will reduce the complexity for fund members and employers alike, which is a positive, reducing red tape for members and employers alike.

“Also, we are pleased that the Government is going to maintain a more equitable treatment for low income earners by introducing the Low Income Superannuation Tax Offset to replace the Low Income Superannuation Contribution.”

About the SMSF Association:

The SMSF Association is the authoritative voice for the self-managed superannuation fund sector. The Association, which represents professionals providing a range of services across various disciplines in the complex area of SMSFs as well as engaging trustees to become better educated and informed. The SMSF Association is an advocate for the highest professional standards and competence to ensure SMSF trustees always receive the best possible advice.

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