

2006/07 Federal Budget: an update

Since outlining a raft of super reforms in the May 2006 Federal Budget, the Treasurer has announced a number of refinements and further arrangements, aimed at simplifying the transition to the new system.

Some of these reforms may affect how individuals plan for their financial future.

If you're thinking about your super, it's more important than ever to talk to a licensed financial adviser about how the changes might affect you.

If you don't already have a financial adviser, but would like to be put in touch with one, call us on 1300 880 588.*

* Financial planning services are provided by Aon Wealth Management (AFSL 239187) and Aon Financial Planning & Protection (AFSL 239183).

To recap, the main superannuation proposals outlined on Budget night were as follows:

- to remove benefits tax from 1 July 2007 for Australians aged 60 and over who have already paid tax on their superannuation contributions and earnings
- to abolish the reasonable benefit limits and age-based contribution limits
- to allow individuals greater flexibility as to how and when they wish to draw on their superannuation in retirement
- halving the current pension taper rate to \$1.50 from 20 September 2007
- allowing the self-employed to claim a full deduction for their superannuation contributions and be eligible for the Government co-contribution for their personal after-tax contributions
- before-tax contributions limited to \$50,000 a year from July 2007
- after-tax contributions limited to \$150,000 a year effective from 10 May 2006
- termination payments above \$140,000 will be taxed at the top 45% tax rate instead of the current 30%
- executives will be banned from rolling over their payouts into superannuation funds from July 2007
- any fund that does not have a member's TFN by July 2007 must
 - deduct the top rate of tax on any before-tax contributions above \$1,000 in a year
 - disallow after-tax contributions from the member.



Refinements and further arrangements announced in early September include:

Transfer to new pension products

- Existing allocated pensioners will be allowed to transfer to new pension products from July 2007.

Contributions

- Subject to any applicable work test, individuals will be able to make up to \$1 million of after-tax contributions between 10 May 2006 and 30 June 2007.
- The \$150,000 annual limit on after-tax contributions will commence from 1 July 2007.
- People aged under 65 will be able to bring forward two years of contributions, enabling \$450,000 to be contributed in one year, with no further contributions in the next two years.
- In addition to the annual cap, individuals can contribute:
 - a lifetime limit of \$1 million from the sale of small business assets which have been held for 15 years
 - settlements for injuries resulting in permanent disablement.
- Indexation of the contribution caps to Average Weekly Ordinary Time Earnings in increments of \$5,000. This aims to make it easier for people to understand how much they can contribute to superannuation.

Payments

- Transitional arrangements will be put in place for employer eligible termination payments that were specified in existing employment contracts as at 9 May 2006 and that are paid before 1 July 2012.

- Amounts will be taxed at 15% up to \$140,000 (30% if under 55), 30% up to \$1 million, and the top marginal rate for amounts over \$1 million.
- Termination payments can be rolled into superannuation until 1 July 2012.
- For rollover amounts above \$1 million, the excess above \$1 million will be taxed at the top marginal rate.
- Rollover amounts less than \$1 million will be treated as taxable contributions but will not count against the \$50,000 cap on concessional contributions.
- The concessional tax treatment of employee invalidity benefits will be extended to the self-employed.

Tax file numbers

- New arrangements will encourage people to quote their tax file number to their super fund including:
 - a Government-funded education campaign
 - allowing people until 30 June 2008 to quote their TFN before the withholding tax need apply
 - a refund of any tax withheld for a period of up to four years
 - allowing quotation of a TFN for employment purposes to be treated as being for superannuation purposes
 - removal of the \$1,000 threshold for accounts commenced from 1 July 2007 and
 - the ATO using their systems to improve the quotation of TFNs.

The Government's intention is for the legislation implementing these measures to be introduced into Parliament before the end of the year.

Sources: Treasurer and Minister for Revenue & Assistant Treasurer Joint Press Release no 93; CCH Australia Limited, 5 September 2006; Financial Review 6 September 2006.

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