TREASURER

PRESS RELEASE

NO.

EMBARGO 20 August 1996 7:30 pm

SUPERANNUATION REFORM

Tonight the Government has announced a range of measures designed to make superannuation arrangements fairer, more flexible and better suited to the needs of the modern workforce. These changes are entirely prospective and do not impact in any way on already accumulated superannuation benefits, or any benefits that might be paid under an unfunded or Constitutionally protected scheme (or 'golden handshake') with respect to service before today's announcement.

The Government will:

- Introduce a surcharge of up to 15 per cent on all future tax deductible contributions made to superannuation funds by or for high income earners, including those who salary sacrifice.
- Increase the general age limit for superannuation contributions from 65 to 70.
- Allow individuals to claim an exemption from capital gains tax on the sale of a small business where the proceeds are used for retirement.
- Allow banks, building societies, credit unions and life insurance companies to provide superannuation in the form of Retirement Savings Accounts.
- Offer an income tax rebate for people who contribute to the superannuation fund or Retirement Savings Account of a non-working or low income spouse.
- Allow employees earning between $450 and $900 per month to have the option of choosing between Superannuation Guarantee contributions or the equivalent in wages and salary.
- Abolish the superannuation standard contributions limit, so that the age based limits for deductible employer contributions will apply to all contributions for employees made by employers.
- Introduce a rebate for low income aged persons.

The Government will also review the mechanism for delivery of the 'LAW' tax cuts as matching Government contributions, as described in the 1995-96 Budget. This review will be in conjunction with a review as to the technical implementation and workability of compulsory employee contributions. The Government intends to ensure that the matching contribution is paid in an equitable and effective way, and reserves the right to deliver this assistance to superannuation or like savings.

Details of the Retirement Savings Account measures are in a separate press release; details of the other measures are in the attachment to this press release.

CANBERRA
20 August 1996

SUPERANNUATION CONTRIBUTIONS SURCHARGE FOR HIGHER INCOME EARNERS

(i) The Surcharge

The Government is concerned to make the superannuation system more equitable for all Australians. Accordingly, tax deductible contributions made to superannuation funds (or prospectively to RSA providers) by or on behalf of high income earners, from 7:30 pm EST on 20 August 1996, will be subject to a surcharge of up to 15 per cent, payable by the funds.

The surcharge will be phased in over the annual income range of $70000 to $85000. For the purpose of the surcharge only, annual income will be defined as taxable income plus any employer/self employed deductible superannuation contributions for the year of income. This will prevent the use of salary sacrifice to avoid the surcharge.

This measure will greatly improve the equity of the superannuation system.

Subject to data limitations, the Retirement Income Modelling Task Force estimates that about 355,000 taxpayers will be affected by the surcharge.

There will be no change in the contributions tax arrangements for low and middle income earners.

This surcharge will not affect people already in retirement, nor will it affect already accrued superannuation benefits, including all past contributions and earnings on those contributions. Further, it will not affect benefits paid under an unfunded or Constitutionally protected scheme or ‘golden handshake’ with respect to service before the Budget announcement. Those high income earners intending to retire in the near future can plan to do so on the basis that only contributions made after today’s announcement, or in the case of unfunded or Constitutionally protected schemes as well as ‘golden handshake’ benefits accruing with respect to service after today, will be liable to the surcharge.

(ii) Collection Arrangements

Beginning in 1997, superannuation funds, and prospectively RSA providers, will be required to send details of all employer contributions and personal contributions received in relation to each member during the previous income year ended on 30 June, to the Australian Taxation Office (ATO) by 31 August. This information will include each member's tax file number. Legislation originally introduced by the former Government to allow funds to collect tax file numbers is currently before the Parliament, but may require some modification.

If the member does not advise his or her tax file number to the fund or RSA provider, that entity will be liable to the full 15 per cent superannuation surcharge on deductible employer and deductible personal contributions received in respect of that member.

- If the member subsequently advises the ATO of his or her tax file number and appropriate details of the superannuation fund or RSA provider, the ATO will recalculate the amount of superannuation surcharge payable and will refund any excess to the fund or RSA provider for crediting to the member's account.

Contributions received in the period from today’s announcement to 30 June 1997 will only need to be reported to the ATO by 31 August 1997. This will provide superannuation funds with adequate time to design and implement appropriate systems, in consultation with the ATO.

As members lodge their income tax returns in the year following contributions, the ATO will match details of their taxable income with the information provided by superannuation funds and RSA providers.

Contributions by self-employed people (and other personal contributions) will be identified from the member's income tax return.

- In relation to the 1996-97 year, contributions made in the period from today’s announcement to 30 June 1997 will need to be separately identified on the member's tax return.

Where the sum of a member's taxable income, employer contributions and/or deductible personal contributions exceeds $70000, the ATO will assess the amount of superannuation surcharge payable in relation to that member and will periodically send grouped assessments to the relevant superannuation fund or RSA provider. Beginning in 1997, those assessments will issue each year on 15 November, 15 February and 15 May (ie in the year following the year of contributions).

- The ATO will send a copy of individual assessments to each member affected by the surcharge.

Upon receipt of the superannuation surcharge grouped assessment, the superannuation fund or RSA provider will debit each affected member's account by the amount of the surcharge and periodically remit the surcharge payable to the ATO - respectively by 15 December, 15 March and 15 June, following the issue of grouped assessments a month earlier. 95 per cent of the annual surcharge payable is expected to be collected once these three grouped assessments are paid. Surcharge assessments triggered by late-issuing income tax assessments of members will be grouped for issue in August and subsequent quarters.

The superannuation fund or RSA provider will be required to show details on annual statements sent to members of the contributions reported to the ATO in respect of the member and the amount of superannuation surcharge paid in respect of those contributions.

From 1998, the 15 June payment will also include a part payment in respect of contributions of that year, calculated as 50 per cent of the surcharge assessed for the previous year. By the time this payment falls due, funds or RSA providers will have received most contributions in respect of the current year.

In effect, after 1996-97 the surcharge will be payable partly by (an approximately 50 per cent) instalment in the year of contributions with most of the balance payable on three assessments in the year following contributions. These arrangements are consistent with existing collection arrangements for superannuation funds (other than small funds).

(iii) Other Issues

Appropriate review mechanisms will be available to deal with any dispute in relation to the superannuation surcharge liability by either the superannuation fund, RSA provider or the member.

If a member rolls over his or her benefit to a new superannuation fund or RSA provider, the liability to the superannuation surcharge will be transferred to the new recipient entity.

If a member withdraws his or her benefit from the superannuation system, the liability to the superannuation surcharge will be borne by the member.

Special assessment arrangements, to be developed by the ATO in consultation with the superannuation funds, will apply when members retire.

To ensure equitable outcomes, the surcharge will also apply to defined benefit funds, to unfunded and Constitutionally protected superannuation schemes and to golden handshakes. For this purpose an Actuarial Advisory Committee has been established to advise the Government on appropriate arrangements to achieve that result in an efficient and equitable manner. This Committee will be chaired by the Australian Government Actuary and has been asked to report within a timeframe facilitating implementation of necessary systems by existing superannuation funds for purposes of the first reporting date of 31 August 1997. A separate Press Release provides further details.

Where a member of a defined benefit fund or an unfunded or Constitutionally protected fund, or a recipient of a ‘golden handshake’, retires in the period from today’s announcement to the date of the announcement of the revised arrangements arising out of the Actuarial Advisory Committee recommendations, transitional arrangements will apply. In practice, for a high income earner retiring between now and 30 June 1997, the surcharge would only be payable on benefits accrued with respect to service in the period from today’s announcement to the date of retirement.

The Government reiterates that only contributions made by or on behalf of relevant high income earners after the time of the Budget, or defined or other benefits accruing in respect of that period, will be liable for any surcharge.

AGE LIMIT FOR SUPERANNUATION CONTRIBUTIONS INCREASED

As announced prior to the election, the Government will allow people over age 65 to continue contributing to a regulated superannuation fund or RSA. Individuals will be able to continue so contributing up to age 70, provided they maintain a bona fide link with the paid workforce, that is, they are gainfully employed for at least 10 hours per week over the year. The measure will take effect from 1 July 1997. This will allow time for superannuation funds to make necessary changes to their trust deeds and for the required legislative amendments to be made.

The increased age limit will replace the existing transitional arrangements which permit funds to accept, before 30 June 2000, personal and employer contributions in respect of gainfully employed members who were at least 60 years old on 1 July 1990 and who are under 70 years old. These transitional arrangements were harsh and inequitable in that individuals born on 1 July 1930 could contribute to superannuation until age 70, whereas people born the next day could generally only contribute until age 65.

The measure will remove these inconsistencies between the treatment of superannuation contributions of different groups of individuals under age 70. It will also help those who have had poor access to superannuation by increasing the age at which individuals are generally allowed to make superannuation contributions. In particular, the measure will benefit women who leave the workforce to care for children, and others whose workforce experience has been characterised by breaks, by providing a longer period in which to accumulate an adequate retirement income.

The Government will retain a maximum age limit on superannuation contributions, in recognition of the tax concessions currently provided to superannuation and given that the purpose of superannuation is to provide income in retirement.

The age above which Superannuation Guarantee contributions are not required will also be increased from 65 to 70. This will provide consistency with the increase in the age limit for superannuation contributions.

CAPITAL GAINS TAX EXEMPTION ON THE SALE OF A SMALL BUSINESS FOR RETIREMENT

The Government will proceed with its election commitment to allow individuals to claim an exemption from capital gains tax (CGT) on the sale of a small business where the proceeds are used for retirement. This measure will operate in a manner consistent with the Government’s commitment to provide CGT rollover relief for small business.

Only those taxpayers who would otherwise be eligible to claim CGT rollover relief (see separate press release) will be allowed to claim the CGT exemption on the disposal of assets on or after 1 July 1997. For example, the exemption will be restricted to businesses not wholly engaged in passive investment and will only apply where a direct interest in business assets is sold. That is, the exemption will not apply where any indirect interest in business assets, for example a share portfolio, is sold. To be eligible for the exemption, a taxpayer’s total net business assets, including both passive and active assets, must not exceed $5 million.

Individuals will be allowed to claim a CGT exemption on up to a total maximum capital gain of $500,000. The exemption can be claimed by a person aged 55 or older, or by younger people if the proceeds are rolled over to a superannuation fund or an Approved Deposit Fund to be preserved until the superannuation preservation age (currently age 55). Amounts exempt from CGT will not attract a further deduction, nor will they be subject to superannuation contributions tax, when rolled over to a fund. Such amounts will not be subject to Eligible Termination Payment tax when taken directly for retirement on or after age 55. CGT exempt amounts will be subject to the Reasonable Benefit Limits.

REBATE FOR CONTRIBUTIONS MADE TO A LOW INCOME EARNING SPOUSE’S SUPERANNUATION FUND OR RETIREMENT SAVINGS ACCOUNT

The Government is concerned to ensure that superannuation is made more flexible, reflecting people’s actual social and work experiences. In the past, many people, particularly low income women, have not had access to their own superannuation plans.

The Government will proceed with its election commitment to allow a contributing spouse to receive an 18 per cent income tax rebate for contributions up to $3,000 per annum to the superannuation fund or Retirement Savings Account (RSA) of a non-income earning spouse or working spouse with an income below $10,800 per annum. This measure will take effect from 1 July 1997, with the rebate payable on assessment from 1 July 1998. There will be consequential changes to the contribution rules to allow such contributions.

$900 SUPERANNUATION GUARANTEE (SG) OPTING OUT PROVISION

The Government will allow employees earning between $450 and $900 per month from an employer, the opportunity to negotiate the payment of additional wages and salary in lieu of Superannuation Guarantee contributions. Where such agreement is reached, employers will be required to make payment to employees in lieu of SG contributions.

The Government recognises that small superannuation contributions are of limited value to many low income earners, who are likely to remain largely dependent on the age pension and have a more pressing need to maintain current living standards. The proposal will also reduce the problem of small superannuation contributions.

This proposal meets the Government's goals of making superannuation arrangements more accommodating to Australians and conferring upon individuals greater control. It is designed to meet the particular needs of those with low incomes and intermittent employment patterns, especially women.

In essence, the measure will enable people to make lifestyle choices which will provide them with greater flexibility.

ABOLITION OF THE SUPERANNUATION STANDARD CONTRIBUTION LIMIT

The standard contribution limit allows an employer, with ten or more employees, to elect to deduct superannuation contributions from assessable income using a standard limit per employee (currently $27,170) rather than the age based limits otherwise applicable.

The standard contribution limit was introduced for reasons of administrative simplicity. However, the rule has been subject to abuse with some employers claiming deductions for contributions on behalf of particular employees, well in excess of age based limits.

This structuring of arrangements to take advantage of the standard limit has come at a cost to revenues and the Government believes that the standard limit can no longer be justified. Accordingly, access to the standard limit is to be denied with respect to employer contributions made after 7.30 pm EST on 20 August 1996.

This will result in a deduction not being allowed for that part of employer contributions made after 7.30 pm EST on 20 August 1996, that would bring the total employer contributions, applicable to an employee, over the age based limits for the 1996-97 or subsequent income years.

A deduction will be allowed if an employer can demonstrate that a contribution in excess of the age based limits, for a particular employee, was made before 7.30 pm EST on 20 August 1996. This would be contingent on the employer remaining within the applicable standard contribution limit.

TAX REBATE FOR LOW INCOME AGED PERSONS

An income tax rebate is to be introduced for persons who are at or above age pension age, considered to be residents for age pension purposes, and with incomes below the pensioner rebate cut-out threshold. As a transitional measure, the rebate for 1996-97 will be at a level equivalent to half the pensioner rebate for 1996-97. The amount of the transitional rebate is expected to be announced in March 1997. Those low income aged persons who qualify for the rebate will receive their full rebate entitlement with respect to the 1997-98 income year.

The tax rebate is to be available to persons at or above age pension age (currently 60.5 for women and 65 for men) who are considered to be residents for age pension purposes (ie, individuals who have been resident in Australia for at least ten years) and who have income below the pensioner rebate cut-out threshold. As an indicator of the income thresholds that are likely to apply, the cut-out thresholds applicable to pensioners for 1995-96 were $20,441 for a single person and $31,730 for a couple ($39,244 for a couple separated due to illness). These thresholds are revised each year in line with changes to pension levels.

Eligibility for the rebate will be determined on the basis of family income, as is the case for a pensioner couple. The rebate is to be transferable between partners, provided both partners meet the pension income, age and residency criteria. This means that any unused rebate of one partner may be added to the rebate of the spouse where the spouse has, or would have, a tax liability. The transferability of the pensioner rebate presently only applies where both partners are pensioners, and will be extended to the situation where either one or both partners are non-pensioners provided that the abovementioned criteria are met.

This measure builds on other assistance to older persons which the Government has provided since the election. In particular, the Government has reduced the provisional tax uplift factor from 8 per cent to 6 per cent for the 1996-97 financial year, thus providing an important reduction in the provisional tax burden for many retirees.

EMPLOYEE CONTRIBUTIONS AND THE GOVERNMENT CO-CONTRIBUTION

The Government has made provision in the forward estimates for payment equivalent to the ‘LAW’ tax cuts, as described in the 1995-96 Budget, to be delivered as matching government contributions to employee contributions to superannuation.

The Government will review the mechanism for the delivery of this contribution to ensure it is paid in an equitable and effective way, in conjunction with a review as to the technical implementation and workability of compulsory employee contributions.

The Government reserves the right to deliver this assistance to superannuation or like savings.