



# Budget 2016



## Superannuation Reform:

# Allowing catch-up concessional contributions

The Government will allow individuals with a total superannuation balance of less than \$500,000 just before the beginning of a financial year to make 'catch-up' superannuation contributions. This will support working Australians to build independent wealth for their retirement, and improve the flexibility of the superannuation system by enabling those with interrupted work arrangements to make 'catch-up' superannuation contributions.

## The issue

The annual concessional (before-tax) superannuation caps currently offer little flexibility for those who take time out of work, work part-time, or have 'lumpy' income and therefore have periods in which they make no or limited contributions to superannuation.

Women often have interrupted work patterns or work part-time, which contributes to lower, on average, superannuation account balances than men.

Additionally, individuals may take time out of the workforce to undertake caring responsibilities,

further studies, or due to physical or mental illness.

Similarly, there is limited flexibility for those who find that they have greater disposable income later in life when some ongoing costs, such as mortgage repayments and school fees diminish.

Allowing people to carry forward unused concessional cap amounts provides them with the opportunity to 'catch-up' if they have the capacity and choose to do so.

## The details

People with a total superannuation balance of less than \$500,000 will be able to carry forward their unused concessional cap space amounts from 1 July 2018.

Individuals will be able to access their unused concessional contributions cap space on a rolling basis for a period of five years. Amounts that have not been used after five years will expire.

This increased flexibility will make it easier for people with varying capacity to save and for those with interrupted work patterns, to save for retirement and benefit from the tax concessions to the same extent as those with regular income.

Individuals aged 65 to 74 who meet the work test will be able to access these arrangements.

### Cameo — Cassandra

Cassandra is a 46-year-old earning \$100,000 per year. She has a superannuation balance of \$400,000.

In 2018-19, Cassandra has total concessional superannuation contributions of \$10,000.

In 2019-20, Cassandra has the ability to contribute \$40,000 into superannuation of which \$25,000 is the amount allowed under the annual concessional cap and \$15,000 is her unused amount from 2018-19 which has been carried forward.

The full \$40,000 will be taxed at 15 per cent in the superannuation fund. Prior to the changes, her amounts in excess of the annual cap would have been subject to tax at her marginal rate, resulting in an additional \$3,600 tax liability.

## QUESTIONS AND ANSWERS

### Catch-up contributions

How much is carried forward?

- Only amounts of unused concessional cap space from 1 July 2018 will be carried forward.
- For example, if in 2018-19 an individual contributes \$15,000 they will carry forward \$10,000.

I didn't work in 2015 or 2016 and didn't make contributions. Can I carry forward those unused amounts?

- No, only unused amounts from 1 July 2018 onwards can be carried forward.

How will I know how much I can contribute in any single year?

- Members seeking to utilise the carry forward should keep track of their available amounts by reviewing prior year concessional contributions compared to the relative cap in that year. This information can generally be found on the member contribution statements funds provide to members each year.

What happens if I contribute more than I am allowed?

- An individual can make concessional contributions in a single year up to the value of the concessional cap and any carried forward amount they have available. Any amounts in excess of this will be taxed at the individual's marginal tax rate.

Is there a limit on how long amounts can be carried forward?

- Carried forward amounts expire if they remain unused after five years.

How do I know if my balance is below \$500,000 so I can make additional contributions?

- In the first instance you should contact your fund(s) to determine the value of your total superannuation balance.
- In addition the ATO currently displays the last reported balances for all of an individual's superannuation accounts through the MyGov online service.

How is my superannuation balance calculated?

- An individual's superannuation balance will be calculated as the sum of their accumulation phase superannuation interests (i.e. those not in the retirement phase) and the balance as reported for the transfer balance cap. Their balance will also include any roll-over amounts that haven't already been counted elsewhere.