Budget 2016

JOBS & GROWTH

Superannuation Reform:

Improve integrity of transition to retirement income streams

The Government will remove the tax exempt status of income from assets supporting transition to retirement income streams. Individuals will also no longer be allowed to treat certain superannuation income stream payments as lump sums for tax minimisation purposes. This will improve the sustainability and integrity of the superannuation system by ensuring that transition to retirement income streams are fit-for-purpose.

The issue

Transition to retirement income streams were introduced in 2005 to provide limited access to superannuation for people wanting to move towards retirement by reducing their working hours and using their superannuation to supplement their income.

People can commence a transition to retirement income stream between preservation age (currently 56)[1] and age 65.

Individuals in receipt of transition to retirement income streams enjoy tax-free earnings on their superannuation assets. Recipients are also able to reduce their tax liability by salary sacrificing their income (that would otherwise be taxed at their marginal tax rate) into superannuation and instead taking a superannuation income stream at a concessional tax rate.

The Productivity Commission has recently found that transition to retirement income streams have increasingly been used by people for tax minimisation purposes without any reduction in work hours.

The details

To ensure access to transition to retirement income streams is primarily for the purpose of substituting work income rather than tax minimisation, the tax exempt status of income from assets supporting transition to retirement income streams will be removed from 1 July 2017.

Earnings from assets supporting transition to retirement income streams will now be taxed concessionally at 15 per cent. This change will apply irrespective of when the transition to retirement income stream commenced.

Reducing the tax concessional nature of transition to retirement income streams will ensure they are fit for purpose and not primarily accessed for tax minimisation purposes.

Further, individuals will no longer be able to treat certain superannuation income stream payments as lump sums for tax purposes, which currently makes them tax-free up to the low rate cap ($195,000).

The same transitional arrangements for capital gains tax relief as applies to the transfer balance cap (see Superannuation Fact Sheet 2) will be available to assets affected by this measure.

Budget impact

This measure is estimated to improve the underlying cash balance by $470 million over the forward estimates.

1 An individual's preservation age depends upon their date of birth.

Date of birth	Preservation age (years)
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

Cameo — Sebastian

Sebastian is 57 years old, earns $80,000 and has $500,000 in his superannuation account. He pays income tax on his salary and his fund pays $4,500 tax on his $30,000 earnings.

Sebastian decides to reduce his work hours to spend more time with his grandchildren. He reduces his working hours by 25 per cent and has a corresponding reduction in his earnings to $60,000.

He commences a transition to retirement income stream worth $20,000 per year so that he can maintain his lifestyle while working reduced hours.

Currently, Sebastian pays income tax but his fund pays nothing on the earnings from his pool of superannuation savings.

Under the Government's changes, while the earnings on Sebastian's superannuation assets will no longer be tax free they will still be taxed concessionally (at 15 per cent). He will still have more disposable income than without a transition to retirement income stream. This ensures he has sufficient money to maintain his lifestyle, even with reduced work hours.