Federal Budget 2012 overview

The Federal Treasurer, Wayne Swan declared in last night’s budget announcements that “the deficit years of the global recession are behind us. The surplus years are here.” Coined “Spreading the Benefits of the Boom” package, it intends to create policies which will share the benefits of the mining boom amongst all Australians.

Very few changes for superannuation were announced. Perhaps the biggest surprise was the deferral of the higher concessional contributions cap for those aged 50 or older until 1 July 2014. Confirming pre-Budget speculation, the tax concession which very high income earners receive on their concessional contributions will be reduced from 1 July 2012.

More detail about these and other changes to superannuation are summarised below.

Important note: Budget announcements are proposals only at this stage

This Budget contains a number of measures that will be phased in over various timeframes, which may be confusing. Further information and specific detail will be provided as it is clarified. In addition, the announcements in the 2012 Budget will generally require the passage of legislation through the parliament prior to coming into effect.

For this reason, Budget proposals should not be regarded as final until the legislation has been passed.

Deferral of higher concessional contributions cap

The Government will defer increasing concessional contribution caps for individuals over 50 with low superannuation balances by two years, from 1 July 2012 to 1 July 2014.

Under the higher concessional contributions cap measure, individuals aged 50 and over with superannuation balances below $500,000 will be able to make up to $25,000 more in concessional contributions than allowed under the general concessional contributions cap.

The two-year deferral means that for 2012-13 and 2013-14, all individuals will be able to make concessional contributions of up to $25,000 per year as permitted under the general concessional contributions cap. In 2014-15, the general cap is likely to increase to $30,000 through indexation, and the higher cap would then commence at $55,000.

UniSuper comment: This announcement means that from 1 July 2012, the concessional contributions cap will be $25,000 for all members until 30 June 2014. Therefore if you are aged 50 and over you will have to carefully consider how you make contributions to UniSuper (for example, whether you salary sacrifice or make personal after-tax contributions).

Some of the ways we will be supporting members include the following:

- providing fact sheets and tools on our website
- offering phone advice from UniSuper Advice, which is easily accessible to all members and can cover a single topic such as managing contributions
- offering comprehensive advice from UniSuper Advice, which can include advice on this issue as well as broader assistance on such matters as developing a personal retirement plan.

Based on: Budget Paper No 2 [p 40]
Reduction of higher tax concession for contributions of very high income earners

The Government will reduce the tax concession which very high income earners receive on their concessional contributions.

Currently, the 15 per cent flat tax on concessional contributions provides high income earners with a significantly larger tax concession than those on lower marginal tax rates. From 1 July 2012, individuals with income greater than $300,000 will have the tax concession on their contributions reduced from 30 per cent to 15 per cent (excluding the Medicare levy).

The definition of ‘income’ for the purpose of this measure includes concessional superannuation contributions. If an individual’s income excluding their concessional contributions is less than the $300,000 threshold, but the inclusion of their concessional contributions pushes them over the threshold, the reduced tax concession will only apply to the part of the contributions that is in excess of the threshold. ‘Concessional contributions’ for the purpose of the measure includes notional employer contributions for members of defined benefit funds.

The reduced tax concession will not apply to concessional contributions which exceed the concessional contributions cap and are therefore subject to ‘excess contributions tax’. These contributions are effectively taxed at the top marginal tax rate and therefore do not receive a tax concession.

Based on: Budget Paper No 2 [p 41]

UniSuper comment: At this stage, it is unclear exactly how this tax will work. Treasury will consult with the super industry on the design and implementation details. UniSuper will monitor developments.

Other Budget proposals

Personal income tax — better targeting of the employment termination payment tax offset

The Government will make the taxation of employment income fairer. The employment termination payment (ETP) tax offset can currently be used to reduce tax payable on payments included in remuneration packages such as ‘golden handshakes’, among other things, which are not related to genuine hardship. This primarily benefits high income earners who are more likely to receive such payments and receive much larger payments when they do. To address this, the Government will limit the availability of the ETP offset.

From 1 July 2012, only that part of an affected ETP, such as a golden handshake, that takes a person’s total annual taxable income (including the ETP) to no more than $180,000 will receive the ETP tax offset. Amounts above this whole-of-income cap will be taxed at marginal rates. The whole-of-income cap will complement the existing ETP cap ($175,000 in 2012-13, indexed) which ensures that the tax offset only applies to amounts up to the ETP cap. The ETP tax offset ensures that ETPs up to the ETP cap are taxed at a maximum tax rate of 15 per cent for those over preservation age and 30 per cent for those under preservation age.

Existing arrangements will be retained for certain ETPs relating to genuine redundancy (including to those aged 65 and over), invalidity, compensation due to an employment-related dispute and death.

Source: Budget Paper No 2 [pp 33-34]

UniSuper comment: This proposal could affect some members. UniSuper runs seminars across Australia on request on Redundancy and/or Early Retirement Schemes. The content of this proposal will be reviewed and incorporated into those seminars for the new financial year.

If you will be receiving an ETP we encourage you to seek financial advice.