BRIEFINGS

WATERHOUSE CHARTERED ACCOUNTANTS

MARCH 2023

Proposed Changes to Superannuation Announced this Week

Below is a brief summary of the proposed changes to superannuation announced by the Treasurer, Jim Chalmers, this week:

- Changes will only affect Individuals with superannuation member balances in excess of $3m, i.e. this means that for couples their total superannuation balance could be $6m.
- The changes are proposed to come into effect from 1 July 2025 so there is time to plan the best course of action for our clients.
- Income on balances in pension mode will still be tax free (the current pension account limit of $1.7m should index to $1.9m from 1 July 2023), i.e. there is no proposed change to the current rules.
- Income on accumulation accounts above pension limits, but under $3m will continue to be taxed at 15% on income and 10% on capital gains if assets are held for more than 12 months, i.e. there is no proposed change to the current rules,
- Withdrawals from superannuation once in pension mode will continue to be tax free in the individual's hands.
- Deductible contributions to superannuation will continue to be taxed in the fund at 15% or 30% for higher income earners, i.e. there is no proposed change to the current rules.
- **Income relating to superannuation balances over $3m per member are proposed to be taxed at 30% - this is the big change.**
- Franking credits from dividends can still be used to reduce the tax payable, i.e. there is no proposed change to the current rules.
- There has been no announcement about how the changes will be administered, e.g. what happens if you have three different superannuation fund accounts, i.e. which fund will pay the extra tax?

An example of the proposed legislation is below:

Assume Mr and Mrs Smith both have $5m in superannuation, a total superannuation fund value of $10m of which $1.7m each is in pension mode and $3.3m each is in accumulation mode.

Under current rules, there is no tax on the 34% of income relating to the funds in pension account and 15% tax on the balance of the income.

Under the proposed new rules, there is no tax on the 34% of income relating to funds in pension account, there is 15% tax on the income relating to funds above $1.7m and up to $3m (so 15% tax on the income relating to that $1.3m) and 30% tax on the income relating to the funds above the $3m limit per member (so 30% tax on the income on $4m).

If assumed earnings on the fund for the year were 6%, the additional tax payable by the fund would be $4m x 6% income x 15% additional tax i.e. $36,000 pa.

If you have any concerns about your individual circumstances, please do not hesitate to call and we can review your individual member balances and assess the tax impact of the proposed change.