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BUSINESS ACCOUNTANTS



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Federal Governments Proposal to raise the Concessional Contribution Cap

From the 1st of July 2012, concessional contributions will be limited to \$25,000 for those eligible (check with your advisor about the work test, 10% rule and your age for contribution eligibility). Currently, those over 50 years of age can make a concessional contribution of up to \$50,000 per year and those under 50 have a limit of \$25,000 per annum.

Concessional Contributions have been reduced, steadily over the last couple of years. A few years ago, there was a limit of \$100,000 for those 50 and over and \$50,000 for under 50's. This seemed fair game. With the election of the Rudd government, concessional limits were changed in a step down fashion, to eventually bring everybody in line with a \$25,000 concessional limit to apply from 1 July 2012.

The argument from government was that only the "rich" were able to afford contributions of more than \$25,000 in a year, so let's cut the tax deductions being handed out in their personal tax returns, and collect some more tax from this minority group. If you were on top marginal rate, you could effectively claim a 46.5% tax deduction for a concessional contribution into super and only pay 15% tax on the money going in.

This grab for tax is a short sighted view. With an ageing population along with an every increasing reliance on government assistance, one would think people would be highly encouraged to become self funded retirees. In fact, we do hear government ministers speaking about this need, but, actions speak louder than words and the government's actions are to restrict super balances.

It seems with a backlash from the superannuation industry as a whole and those members' seriously considering their superannuation to wholly fund their retirement, the government is proposing from the 1st of July 2012 to allow people 50 and over, with a member's balance of less than \$500,000 to be eligible to contribute \$50,000 instead of the \$25,000. Good in theory, but a few problems arise.

Firstly, the tests and administration will most likely be onerous and add another layer of complexity and costs and increase the likelihood of exceeding caps and being whacked for excess contributions tax. There will be look back tests, add backs required and the guessing game or timing issue of today's (unknown balance) versus the balance the last few set of accounts completed which will be used to determine a member's balance and thus eligibility.

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Secondly, I have a real problem with a balance of \$500,000. This says to people, that hey, if you have more than \$500,000, you are ok, no need to worry; you should be fine for your retirement with this balance.

Having annual set concessional contribution caps is a real restriction. People sending kids to school, paying down debt and dealing with major living expenses for most of their working life, may finally be able to sock some money into super, yet the rules won't allow it. In the years leading up to retirement, people have the ability to contribute and are thinking about their retirement. If the government wants self funded retirees, allow them to self fund by building up their members balances.

My suggestion would be to turn back the clock and allow \$100,000 concessional limits for those over 50 and \$50,000 for those under, with no restriction on members balances. As we speak now, people will be planning how to get around the proposed rules. Do I bring my wife into the fund who is over 50, and has a small balance? How can we split earnings or re allocate super contributions? We could set up reserves; maybe we could withdraw an amount and give it to the kids? Whatever happens, there will be ways around it.

Hopefully the Government sees some sense and at least allows for over 50's to not have a member's balance limit. The members will pay for the extra work taken by accountants / financial advisors to determine their eligibility and I'm sure caps will be breached and penalties issued. Once again, you would think the government would be hell bent on allowing member's to build up their super balances to allow for their retirement to be self funded and not reliant on government handouts.

Keep in mind, if you do need to get money into super, there are non concessional contributions (which is money that has already been taxed) that a member can make, where the limits are \$150,000 a year or up to \$450,000 over a three year period – so you could lump in \$350,000 in one year, then be able to contribute \$100,000 as a non concessional contribution over the next two years for example (you need to be under 65 years of age to do this) and you of course need to meet the work test for any contributions you make.

It may be wise to write a letter of protest to your local MP and / or start thinking about your member's balance and how you can keep it under \$500,000 and contact your advisor for more information. There is a lot of water to go under the bridge, yet this is what we are looking at occurring from 1st of July 2012.

- Mark Rogerson