SMSF Owners' Alliance
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## Budget a mixed bag for super savers

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Tonight's Budget has some good news for super savers and some not so good.

The good news is:

- women and others with broken work patterns will be able to make 'catch-up' payments
- spouses can help boost each other's super savings
- the self-employed will be able to make deductible superannuation contributions
- older Australians will not have to pass a work test to make super contributions
- people earning below $37,000 will not pay tax on their super contributions
- tax exemption on earnings in retirement phase will be extended to other products such as deferred lifetime annuities

The not so good news is:

- a new, retrospective tax will apply to some earnings in retirement that are currently tax free
- a lower concessional contributions cap will reduce the flow of savings into super
- the limit on non-concessional contributions will be reduced

And well anticipated news:

- Lowering the income level at which the 15% superannuation surcharge begins to apply to $250,000, matching Labor, rather than the widely speculated $180,000

**A new retrospective tax**

Any super balances over $1.6m on retirement will either have to be withdrawn from super savings or put back into an accumulation account and be subject to a new 15% tax on earnings. Any balances over $1.6m as at 1 July 2017 for existing retirees will similarly have to be withdrawn or taxed. However, from retirement (or July 2017 for existing retirees) any growth of super balances above the new limit will not be taxed.

As no tax currently applies to earnings in retirement phase, the new cap on balances will be a retrospective tax, generally considered a bad principle in tax law. This is not less important because the Government says few people will be affected.

The Government appears to see super as another tax redistribution mechanism and in that sense, it is not equitable. Effectively any earnings over $80,000 a year in retirement will be taxed, comparable to Labor's policy to tax superannuation fund earnings over $75,000 in retirement.

This cap on balances is reminiscent of the old Reasonable Benefits Limit. We have maintained that limiting contributions is the best way of managing the use of tax concessions. Those who have been successful in their investing during their working life will be penalised versus those less successful.

The new cap is likely to lead to people investing less in superannuation, investing more in their residence and using negative gearing more.

**Putting a brake on super**

The cap on concessional contributions will be reduced to $25,000 a year for everyone (from 1 July 2017) from the current cap of $30,000 for those under 50 and $35,000 for those aged 50 and over.

Reducing the concessional contribution limit to $25,000 a year will reduce the flow of savings into superannuation and make it harder for people to attain self-sufficiency in retirement. It is to be hoped the Government will progressively increase the cap to ensure more people are able to save enough to achieve an adequate retirement income. Again, this inequitably limits the use of the superannuation system for those on higher income.

Unsurprisingly, our preliminary modelling indicates that the cost of this move to the Budget in the longer term will rise due to increased recourse to the Age Pension.

**Limited vision for super**

The Government has adopted, unchanged, the objective for superannuation proposed by the Financial System Inquiry. In our submission to the Government's recent review of the purpose of superannuation we explained why this is a very limited definition. It defines superannuation solely in terms of the Age Pension and not as a valuable economic and social objective in its own right. Nor does it set any benchmark for the performance of the retirement savings system, such as the concept of a reasonable replacement rate favoured by serious economists. In our view, superannuation should be the way most people achieve financial independence in retirement, leaving the Age Pension as a social safety net.

Without a meaningful and clear definition of the objective of superannuation there will remain uncertainty due to increased risk of future policy changes adversely impacting superannuation.

On the positive side we are pleased that the Government has accepted the need for more flexibility for those with broken work patterns. However, the ability for taxpayers to carry forward 'unused' contribution caps for up to 5 years only applies to those with super balances of less than $500,000 – which is not automatically indexed.

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