Super Concepts

FACT SHEET

Federal Budget 2019: Superannuation Measures

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Work test changes for voluntary contributions

Starting from 1 July 2020, those aged 65 and 66 will be able to make voluntary super contributions, both concessional and non-concessional, without meeting the work test.

Currently, this group can only make voluntary contributions if they meet the work test, which requires them to have worked a minimum of 40 hours over a 30-day period.

Under the new measure, those aged 65 or 66 will be able to do volunteer work or limited paid work and still be able to make voluntary super contributions — or have contributions, such as spouse contributions, made on their behalf.

This change will align the work test with the eligibility age for the Age Pension, which is scheduled to increase to 67 from 1 July 2023.

This measure follows other changes made to the work test in recent times — all of which are designed to provide those over 65 with greater flexibility to contribute to super.

One of the measures in last year's budget was a 12-month work test exemption for recently-retired people between the ages of 65 to 74, provided their total super balance was less than $300,000 at 30 June prior.

The measure announced in this year's budget will remove the work test in its entirety for people aged 65 and 66. Those over age 66 but under 75, who have recently retired, will still be eligible for a 12-month exemption from the work test if their total super balance at 30 June prior was less than $300,000.

Interestingly, it appears this measure could be introduced by simply amending the superannuation regulations. As changes to regulations are not required to be passed by both houses of parliament, it is conceivable this change could be passed before the election is called.

Increased age limit for spouse contributions

Commencing from 1 July 2020, the age limit for spouse contributions will be increased from 69 to 74 years. Currently, those aged 70 or over cannot receive contributions made by another person on their behalf.

This means members up to and including age 74 will be able to receive spouse contributions, with those aged 65 and 66 no longer needing to meet a work test.

As has been the case in the past for spouses aged between 65 and 70, a spouse aged 69 to 74 will need to satisfy the work test before the spouse contribution can be made.

Similar to the work test measure, it appears this change could be made by simply amending the superannuation regulations, which means it's possible this measure could be passed before the election is called.

Extension of the bring-forward arrangements

Commencing from 1 July 2020, the bring-forward arrangements, which currently allow those under age 65 to make 3 years-worth of non-concessional contributions, will be extended to those aged 65 and 66.

This means under the current non-concessional contribution caps, members aged under 67 will be allowed to make a $300,000 non-concessional contribution in a single year, assuming they haven't already triggered their bring-forward period and their super balance was less than $1.4m at 30 June prior.

Presumably this measure will work the same way as the rules currently work for members who turn 65 during the course of the financial year. That is: a member who turns 67 during the course of the financial year will be able to access the bring-forward arrangements as long as they have satisfied the work test in that financial year, or they qualify for the 12-month exemption from the work test as a recently retired member.

As this measure will require a change to an act of parliament, and with an election looming, the passage of this particular measure appears much more uncertain.

Reducing red tape

Commencing 1 July 2020, SMSF trustees holding both accumulation and retirement phase accounts over the course of a year will be allowed to choose their preferred method of calculating exempt current pension income.

This is a welcome change and presumably means SMSFs will be able to choose the method which provides the most tax-effective outcome.

Under the current law, if an SMSF has members who move from the accumulation to pension phase or vice versa during a financial year, the trustees are required to apply the actuary's exempt current pension income percentage to discreet periods of the year.

Presumably this change will enable the trustees to either apply the actuary's exempt pension income percentage for the entire income year — or request an exempt current pension income percentage only for periods of the year when the fund had both accumulation and pension interests. Obtaining both will enable trustees to compare the tax outcome from both methods and, presumably, choose the method that provides the most tax-effective outcome.

The government will also remove a redundant requirement for superannuation funds to obtain an actuarial certificate when calculating exempt current pension income using the proportionate method, where all fund members are fully in the retirement phase for all of the income year.

This can occur, for example, when an SMSF has members in the pension phase with a total super balance in excess of $1.6 million. Under the current law, an SMSF in this situation is required to use the proportionate method to calculate exempt current pension income and obtain an actuarial certificate, even though all the fund assets are supporting retirement phase income streams and the income is therefore exempt from tax.

Delayed start for electronic SMSF rollovers

Late last year amendments were made to the law to extend the operation of SuperStream to cover SMSFs rollovers from 30 November 2019. This is a very positive development for the SMSF sector as it will significantly reduce the time it takes to rollover funds from larger super funds.

Unfortunately, this year's budget delays the introduction of this measure until 31 March 2021, to coincide with the expansion of the SuperStream Rollover Standard. So unfortunately, the SMSF sector will now need to wait a little longer for this measure to start.

Compensation scheme of last resort

Significant funding will be provided over the next 5 years to facilitate the government's response to the royal commission, including the design and implementation of an industry funded compensation scheme of last resort.

It is unclear from the budget papers whether this scheme will extend to SMSF members who suffer financial loss due to advice failures, and also how such a scheme will be funded.

Further information

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