

Budget 2006 Super & Tax

The recently announced 2006 Federal Budget contains widespread changes to Australia's superannuation and tax system that will affect not only how you save for your retirement, but also your income and personal tax levels in the short-term.

Simple Super – On Withdrawals The government has proposed to substantially simplify superannuation from 1 July 2007. It is aiming to make super more tax advantageous and simpler by making lump sums and pensions paid from superannuation funds tax-free for people aged 60 years and over.

Effect: A more flexible & simple solution to manage & meet the needs for income, growth, and no tax. (Sounds too good to be true)

Reasonable Benefit Limits The government is also proposing to abolish all Reasonable Benefit Limits (RBL's), which is the maximum amount a person is currently allowed to withdraw as a lump sum \$648, 946 or pension \$1,297,886 from superannuation in a concessionally taxed form upon retirement.

Effect: The effect of the proposed changes will be to make superannuation an even more attractive and beneficial long-term savings vehicle. So, while your retirement may be a short or long-term priority, you now have an additional incentive to save for your retirement, as the current taxes that apply on withdrawal from the superannuation system will be abolished. Good financial advice can help you develop a strategy that benefits from the proposed changes.

Contributions The government is proposing widespread changes to age-based limits on deductible superannuation contributions. It wants to introduce a flat \$50,000 deductible limit per person per annum. This amount will attract contributions tax of 15%. Amounts in excess of this limit will be subject to tax at the top marginal rate within the fund.

Currently there is a limit for deductible contributions for people aged 50-69 of \$100,587, which is significantly more than the proposed threshold. To ensure people who are looking at retiring in the short-term, are not disadvantaged a transitional period is proposed to allow people currently aged 50 years and over to continue making large deductible contributions, which they are able to do under the current system. It is important that you understand these proposed changes and their likely impact on your retirement plans.

The current limit for deductible contributions for people aged 35-49 is \$40,560 & for people aged under 35 -\$14,603.

Effect: This means that that the proposed \$50,000 deductible contribution will encourage people to save more for their retirement at an earlier age. This can be achieved in a tax effect way by allowing younger people for the first time to make larger salary sacrificed contributions to their super fund. The changes are aimed at getting people to develop a long-term consistent savings approach to their retirement.

Super for the Self Employed There is good news too for the self-employed, with the government moving to allow full tax deductions within the deductible limit, as opposed to the first \$5,000 and 75% of the excess (which are the current arrangements). This aligns with the proposed treatment for super guarantee and salary-sacrificed contributions made by employers on behalf of their employees.

Effect: Simpler Rules in line with being employed. The benefits of the proposed changes to super will vary depending on your current financial situation, and lifestyle goals and objectives.

Personal Income Tax Cuts The Federal Government announced in the Budget tax cuts that will result in benefits for both high and low income earners. How much you will benefit will depend on your both your income level and personal financial situation. The proposed new tax scales are outlined in the table below.

Legislated to commence 1 July 2006 (\$)	Tax Rate (%)	Proposed to commence 1 July 2006 (\$)	Tax Rate (%)
0 – 6,000	0	0 – 6,000	0
6,001 – 21,600	15	6,001 – 25,000	15
21,601 – 70,000	30	25,001 – 75,000	30
70,001 – 125,000	42	75,001 – 150,000	40
125,001 +	47	150,001 +	45

Effect: Now is a good time to plan how to best use the likely additional income – some options may include strategies aimed at reducing your debt levels, or increased investment opportunities, or a combination of both. Please call for assistant or advice on debt management, budgeting, etc.