6 stark superannuation policy differences

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Adam Shultz January 22, 2019

A federal election will be held by May 2019 with the Australian Labor Party (Labor) well ahead in the opinion polls. A change in government may result in amendments to superannuation laws after this financial year. To its credit, Labor has released a plethora of policies relating to financial services, including superannuation, negative gearing and capital gains tax. This allows voters ample time to consider the policies prior to casting their ballots.

What is Labor proposing for superannuation?

1. Non-concessional (after tax) contributions (NCCs)

Labor will reduce the annual non-concessional contribution cap to $75,000 from the current $100,000. Further, at present, a person can utilise the 'bring-forward' rule if they are under 65 years of age and make three years of non-concessional contributions in one year. For example, a person nearing retirement may want to sell an investment property. This person can theoretically contribute $300,000 (after tax), or $600,000 for a couple, into their superannuation.

Under a future Labor Government, the 'bring-forward' rule will allow a one-off (after-tax) contribution of $225,000 for an individual, or up to $450,000 for a couple.

The above only applies for people who have less than the Total Superannuation Balance cap of $1.6 million per person.

2. Tax deductions for personal superannuation contributions

Labor will abolish the tax deductibility for personal superannuation contributions.

At present, in order to claim a tax deduction for a personal superannuation contribution, a person's total concessional contributions, including an employers' compulsory superannuation guarantee contributions (currently 9.5%) must not exceed the annual $25,000 concessional cap.

The person must also provide a valid notice of intent to their superannuation fund and it must be acknowledged (in writing) by the fund.

For example, a person earning $90,000 will receive ($90,000 x 0.095) $8,550 from their employer as a superannuation guarantee contribution. Theoretically the person could contribute a personal after-tax contribution up to a further ($25,000 – $8,550) $16,450 and receive a tax deduction for it.

3. Catch-up concessional (before tax) measure

The Government introduced a scheme on 1 July 2018 that allows people with total superannuation balances below $500,000 to make catch-up concessional contributions. Labor has indicated that it will abolish this in order to tighten up concessions to the wealthy.

At present, any unused portion of the annual concessional cap of $25,000 can be carried forward for up to five years. Using the example above, a person earning $90,000 per annum would have an unused portion of $16,450 if no personal contributions were made. If this same person went on parental leave the following year (year 2) or left the workforce for a 12-month period, they could theoretically contribute ($16,450 + $25,000) $41,450 upon their return into their superannuation account.

4. High-income super contribution threshold

Labor will lower the high-income superannuation contribution threshold to $200,000 from the current $250,000. Exceeding the $200,000 threshold will trigger an additional 15% tax (or 30% total rate) imposed on amounts over the threshold and up to the total amount of concessional contributions that must not exceed the cap of $25,000.

Labor has indicated that this will impact less than 4% of taxpayers.

5. Phase out the $450 superannuation guarantee threshold

Labor will phase out the requirement for employees to earn more than $450 per month before employers are required to make superannuation contributions on their behalf. This will benefit those who work part-time, are in casual employment or work multiple low-paid jobs. The threshold will be reduced in $100 increments from 2020 and will cease to exist by 2024.

6. Superannuation guarantee (SG) to be paid on the Federal Government's paid parental leave

Labor will legislate to pay the superannuation guarantee on the Federal Government's paid parental leave scheme. At present, the paid parental leave scheme provides $719.35 per week for 18 weeks to those women who meet a work test and earn less than $150,000 per year. However, no superannuation contribution is currently paid on this leave.

A Labor government according to my calculations will add a superannuation contribution of ($719.35 x 0.095) $68.34 per week for 18 weeks to be paid directly to the person's super fund or their employer who would make the contribution.

Policies which are not different

Not raise the age pension qualifying age to 70

One of the first initiatives announced by our new Prime Minister Scott Morrison was to abandon the Government's plan to increase the pension age to 70.

Labor and the Government are now on a unity ticket when it comes to increasing the pension age incrementally in 6-monthly intervals up to 67 by 1 July 2023.

The superannuation guarantee (SG) rate will increase to 12%

At this stage, both Labor and the Government are publicly united in the planned incremental SG rate increases despite the Productivity Commissions' recent counter recommendation. Labor has affirmed its desire to increase the SG rate as soon as practicable.

The SG rate is set to increase from 2021/22 at 0.5% per year until it reaches 12% by 2025/26.

Prevent direct borrowing by superannuation funds

Labor will prohibit direct borrowing by superannuation funds on a prospective basis. This policy aims to reduce asset concentration risk in Australia's SMSF sector.

Other financial services policy differences

Budget deficit levy – Labor will reinstate the Budget deficit repair levy of 2% for those earning over $180,000.

Reform dividend imputation – Labor will introduce a policy that stops cash refunds where excess franking credits exceed tax liabilities. An SMSF with at least one welfare pensioner as a member on 28 March 2018 will be exempt from the policy as part of the 'pensioner guarantee', as well as recipients of welfare pensions at any time.

Discretionary trust reform – Labor will introduce a minimum 30% tax rate for discretionary trust distributions. This is aimed at addressing tax minimisation and artificial income splitting.

Cap deductions for managing tax affairs – Labor will cap deductions for managing an individual's tax affairs at $3,000.

These are current policies at the time of writing.

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