

'Babyboomer' superannuation contributions

By **James Shattock**, Rigby Cooke Lawyers

Most of us now have a basic understanding of the proposed changes to superannuation stemming from the Budget announcement in May this year. Anyone retiring soon needs to properly understand the effect of these changes, particularly in relation to making superannuation contributions.

While the employment test was abolished from 10 May 2006 in relation to cashing of benefits, it has not been abolished in relation to the making of contributions. Therefore only members aged *under* 65 may make personal contributions without having to satisfy any employment test; members aged 65 and over must have worked at least 40 hours in a period of not more than 30 consecutive days in that financial year before they can make a personal contribution.

It is proposed to abolish the existing age-based limits for deductibility in relation to contributions from 1 July 2007, with a limit of \$50,000 (or \$100,000 from 1 July 2007 until 30 June 2012 for those aged over 50) on the amount of concessional tax contributions per person per annum that may be made after that date. More particularly, contributions within the \$50,000 cap would be subject to tax of 15 per cent, while contributions in excess of that amount would be taxed at the top marginal tax rate.

It is important to note that the above-threshold amounts *apply to the amount of contributions tax*, not to deductibility. All employer contributions (and member contributions where the member meets the applicable self-employment criteria) are proposed to be deductible from 1 July 2007, including contributions in excess of these threshold amounts — *provided the member is aged below 75*.

It has just been announced that a person who turns 50 between 1 July 2007 and 30 June 2012 will be able to take advantage of the transitional arrangements. The \$100,000 threshold will not be indexed.

RBLs will be abolished from 1 July 2007, meaning that there will no longer be any excessive benefits taxed at 38 per cent or higher. Members aged over 60 will be able to receive any amount of benefits tax-free under the proposed changes and need not feel inhibited or restricted in relation to making contributions now.

Undeducted contributions

On 5 September 2006, Treasury announced the following in relation to undeducted contributions:

- people are now entitled to make up to \$1,000,000 of undeducted contributions between 10 May 2006 and 30 June 2007
- the annual cap of \$150,000 (and the three-year averaging cap of \$450,000) on undeducted contributions applies only from 1 July 2007.

New threshold to apply per person

Another key point is that the above thresholds for making concessional tax contributions that are proposed to apply from 1 July 2007 *apply per person*, irrespective of the number of employers contributing on behalf of the person. This contrasts to the present position where different employers making contributions for the same employee are not subject to the same age-based deductibility limit, unless the employers in question are 'associates' (defined broadly to mean any related person or entity by family or business relationship).

This is only a summary of the effect of some of the proposed changes to contributions for those soon to reach retirement age. There are various strategies that may be adopted in relation to the making of contributions (both before and after 1 July 2007) and professional advice should be sought regarding an outcome suitable to your particular circumstances.

James Shattock can be contacted at Rigby Cooke Lawyers on (03) 9321 7831 or at jshattock@rigbycooke.com.au ●