

SUPERANNUATION SIMPLIFICATION REFORMS

The Tax Laws Amendment (Simplified Superannuation) Bill 2006, the Superannuation Legislation Amendment (Simplification) Bill 2007 and the nine related Bills introduced into parliament to implement the "Superannuation Simplification" reforms announced in the May 2006 Federal Budget received assent on 15 March 2007.

The new legislation provides the grounding framework for the simplified superannuation measures and taxation of the superannuation industry

that will commence from 1 July 2007, except for the provisions dealing with non-concessional (undeducted) contributions and termination payments that commence from 10 May 2006.

In this issue of JR Super News we reiterate the changes that will apply in respect of contributing to and withdrawing from superannuation together with other measures that are of significant interest.

Contribution Rules

CONCESSIONAL CONTRIBUTION (DEDUCTIBLE) RULES

The following tables highlight the contribution types, rules, and caps that currently apply and will apply under the "Superannuation Simplification" regime.

BEFORE 30 JUNE 2007

Age	Employers	Self employed
Under 65	Receive a full tax deduction on amounts up to employee's age based limit: Under 35: \$15,260 pa 35 - 49: \$42,385 pa Over 50: \$105,113 pa	Receive a deduction for the first \$5,000 plus 75% of the excess up to the applicable age based limit.
Between 65 and 75	Must meet work test* and/or mandated employer contributions, however employer will not receive a deduction for those contributions	Must meet work test*
Over 75	Mandated employer contributions only	Not available

***Work Test:** Gainful employment of at least 40 hours in a 30 day consecutive period during the relevant financial year

AFTER 1 JULY 2007

Age	Employers	Self employed
Under 50	Receive a full tax deduction on amounts up to \$50,000	Receive a full tax deduction on amounts up to \$50,000
Between 50 and 65	Receive a full tax deduction on amounts up to \$100,000 until 30 June 2012	Receive a full tax deduction on amounts up to \$100,000 until 30 June 2012
Between 65 and 75	Receive a full tax deduction on amounts up to \$100,000 until 30 June 2012 as long as the work test is met	Receive a full tax deduction on amounts up to \$100,000 until 30 June 2012 as long as the work test is met
Over 75	Mandated employer contributions only	Not available

THE \$1 MILLION NON-CONCESSIONAL (UNDEDUCTED) CAP

The transitional non-concessional contributions cap of \$1 million on the amount of superannuation contributions that a person may make between 10 May 2006 and 30 June 2007 continues to apply.

Included in this non-concessional cap are the following:

- Personal contributions for which an income tax deduction is not claimed;
- Contributions your spouse makes to your super fund account;
- Contributions in excess of your capital gains tax (CGT) cap amount;
- Amounts transferred from foreign super funds (excluding amounts included in the fund's assessable income);
- For the transitional period from 10 May 2006 to 30 June 2007, any employer contributions in excess of your age-based deduction limit; and
- Contributions that are not made by or on behalf of your employer.

The non-concessional contributions cap will exclude the following:

- The super co-contribution;
- Certain contributions arising from structured settlements or orders for personal injuries;
- Certain contributions relating to some CGT small business concessions that are within your CGT cap amount;
- Contributions that are made to a constitutionally protected fund that are not included in the contributions segment of your super interest in the fund;
- Rollovers or transfers between complying super funds (not including amounts transferred from foreign super funds); and
- Contributions made before 10 May 2006.

Should the cap be exceeded for contributions made between 10 May 2006 and 6 December 2006, the superannuation fund to which the contributions were made may release the amount over the cap (tax-free) directly to the person. However, if the cap is exceeded after 6 December 2006, the excess contributions cannot be released.

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TRANSITIONAL RELEASE AUTHORITIES

10 May 2006 to 6 December 2006

Any non-concessional contributions made between 10 May 2006 and 6 December 2006 that have resulted in an individual exceeding the \$1 million non-concessional cap may be taken out of the fund without paying additional tax if the individual applies to the ATO for a transitional release authority.

This transitional release authority is to be requested from the Australian Taxation Office before 30 June 2007. From here, the ATO will send out a transitional release authority to the individual, who will be required to provide the necessary information and send this to the relevant superannuation fund, who will then have 30 days to release the money and report this back to the ATO.

7 December 2006 to 30 June 2007

Any non-concessional contributions made between 7 December 2006 and 30 June 2007 that have resulted in an individual exceeding the \$1 million transitional cap cannot be released from the superannuation fund. Instead, the ATO will issue an excess contributions tax assessment notice.

A tax of 46.5% on this excess non-concessional contributions amount will apply. This tax liability must be released from the superannuation fund on presentation of the compulsory release authority, which will be issued by the ATO together with the notice of assessment.

Benefit Payments (post 1 July 2007)

ABOLITION OF REASONABLE BENEFIT LIMITS (RBL)

From 1 July 2007, the new legislation will abolish RBLs and all benefits paid to a member aged 60 or over, whether by lump sum or income stream (pension), will be tax-free. Earnings on assets funding income streams and annuities will continue to attract exempt income status. However, this concession will from 1 July 2007 only apply in respect of income streams and annuities that meet the proposed new income stream and annuity standards prescribed under the Superannuation Industry (Supervision) Act 1994.

NEW PROPOSED MINIMUM PENSION STANDARDS

The proposed minimum pension amounts are shown in the table below. There is no maximum as the entire balance may be withdrawn tax-free.

Age	% Of Account Balance
55-64	4
65-74	5
75-79	6
80-84	7
85-89	9
90-94	11
95+	14

TAXATION OF BENEFITS OVER AGE 60

From 1 July 2007, a person over the age of 60 will be able to withdraw benefits as either a lump sum or income stream tax-free.

In order for this to occur, the income streams must comply with three standards:

1. Payment of a minimum amount must be made at least annually;
2. The income stream will not be able to be made reversionary.
3. The income stream can only be transferred to a dependant as an income stream on death of the pensioner, to a non-dependant as a lump sum payment, or as a lump sum to the pensioner's estate.

No maximum percentage or amount will apply, with the exception of pensions, which are commenced under the transition to retirement (TRAPs) condition of release, which are limited to 10 per cent.

REMOVAL OF COMPULSORY CASHING

The requirement for compulsory payment of benefits to members over age 65 who do not meet the current work test, and compulsory payment from age 75, is removed as from 10 May 2006. As such, benefits can remain in a fund indefinitely without the need for withdrawal.

OTHER MEASURES IN SUMMARY

1. Centrelink asset taper rate to be halved from 20 September 2007 to \$1.50 per fortnight for every \$1,000 of assets above the assets test free area.
 2. Employer ETPs cannot be rolled to superannuation funds post 1 July 2007 (transitional rules apply) and must be taken as a cash payment.
 3. Pre-83 component is crystallised at 30 June 2007
 - a. Superannuation funds will be required to calculate a pre July 83 amount based on the value of the benefits as at 30 June 2007, using the existing legislative formulae in the ITAA 1936, with the lesser amount to be crystallised.
 - b. Superannuation funds will have until 30 June 2008 to calculate this amount. Once calculated this amount will be fixed and included in the exempt component of a benefit. **Members will need to consider prior to 30 June 2007 whether benefits from tax sources can be amalgamated if they have pre 83 service periods, in order to spread this benefit of this amount across all benefits.**
 4. Proportional drawdown of ETP components post 30 June 2007
 - a. From 1 July 2007, when any benefit is withdrawn from a fund it will have both taxable and exempt components. A member withdrawing a benefit from the fund will be unable to select specific components of the benefit (e.g. undeducteds) to withdraw, as is the case currently. Rather, the benefits will be required to be withdrawn proportionately.
 5. Death benefits
 - a. Lump sums paid to tax dependants will be received tax-free.
 - b. Pensions can only be paid to dependants.
 - c. Non-tax dependants may only receive a lump sum payment and the taxable component is taxed at 15%, excluding the tax-free threshold.
 6. Full superannuation contribution deduction for self-employed persons.
 7. A new single annual return covering the annual regulatory return, income tax and member's contribution statement.
 8. An increase in the supervisory levy from \$45 to \$150 per annum.
- Feel free to contact one of JR's Superannuation Team or your JR accountant to discuss how the above registered amendment may apply to you.

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