MAY 2023 FEDERAL BUDGET REPORT

FIN SEC PARTNERS

Superannuation

Additional tax for super balances over $3 million

Effective date: From 2025-2026

Affected clients: Clients with total super balances over $3 million

The Treasurer confirmed the Government's intention that, under their previously announced "Better Targeted Superannuation Concessions", investment earnings on a person's total super balances over $3 million would be subject to a tax rate of 30% from 1 July 2025 (currently 15%). It will not limit the amount an individual can actually hold in the accumulation phase of superannuation.

The new tax is to be administered by the ATO, using a similar approach to Division 293 tax (an additional tax on concessional contributions for people with income of more than $250,000 per annum). The intention is that this will minimise reporting and compliance costs for super funds.

The Federal Budget Papers indicate that this is expected to impact 80,000 people (0.5% of individuals with a superannuation account) in FY26 and to raise an additional $2.3 billion in FY28, the first full year of receipts collection.

Affected individuals will be able to choose to pay the extra tax directly, or by releasing amounts from one or more of their superannuation balances, consistent with the approach taken for excess contributions tax and Division 293 tax.

In relation to defined benefit interests, the Government states that it intends for broadly commensurate treatment to apply. While a range of possible approaches have been suggested, it is not clear exactly how the tax will be applied to defined benefits.

Consultation has closed on this, and we now await the release of draft legislation for full details on how it will be applied. There may even be changes made, as a result of the consultation.

We note that this increased tax rate on total super balances over $3 million is not set to commence until after the next Federal election and the Opposition has signalled its intention to repeal the legislation, if elected. Also, there has been some criticism that the $3 million threshold won't be indexed, and it will be open for a future government to amend the legislation at any time to increase or index the threshold.

No announcement to extend halving of the pension minimums for another year

Effective date: From 1 July 2023

Affected clients: Clients with Account based pensions, transition to retirement pensions and term allocated pensions.

The government did not announce any extension of the halving of the account-based pension and term allocated pension minimum drawdown requirements, which have been in effect since 2019- 20.

As a result, the minimum drawdown requirements are likely to revert to 100% of the standard minimum from 1 July for the following pensions (and annuities):

- Account based pensions
- Transition to retirement pensions
- Term allocated pensions

Move to payday super

Effective date: From 1 July 2026

Affected clients: All employers

The Government announced that employers will be required to pay their employees' Superannuation Guarantee (SG) entitlements at the same time salary and wages are paid. Currently employers are only required to pay SG on a quarterly basis. Treasury previously estimated around 56% of micro businesses and 30% of all small-to-medium businesses currently pay quarterly, often to help with cash flow.

The change was a recommendation of a recent Senate inquiry on underpayment of remuneration.

Requiring employers to pay super more frequently is expected to have a marginally positive impact on members' balances at retirement, due to super being invested for longer. Perhaps more importantly, payday super should make it easier for employees to keep track of payments and reduce the chance of there being unpaid super, should their employer's business collapse.

This change is effective 1 July 2026, allowing time for employers, super funds, payroll providers and other stakeholders to prepare for the change. The ATO is expected to consult with industry, including employers, in the second half of 2023.

Renewed push to chase unpaid super

Under its Securing Australians' Superannuation Package, the Government will set public targets for the ATO on recovering billions in unpaid super, whereby the ATO will be required to report annually against the new targets. The ATO estimated that $3.4 billion in super payments went unpaid in FY20. The Package also includes additional funding to strengthen the ATO's ability to detect SG non-compliance, by enhancing data matching capabilities that will allow the ATO to act sooner on SG underpayment.

The proposed changes to payday super (see above) will also improve the ability of the ATO to detect when SG has not been paid.

This change is expected to benefit younger workers and women in particular, who are more likely to be in casual and insecure work arrangements, which are more prone to SG underpayment.

Separately, the Government announced funding to enable the ATO to engage more effectively with businesses to address the growth of tax and superannuation liabilities.

Funding to continue for superannuation consumer advocate

Effective date: from July 2024

The Federal Budget confirmed $5million in additional funding over 5 years from FY24 to continue the superannuation consumer advocate's work to improve members' outcomes. This measure will be funded via an increase in the Levy administered by the Australian Prudential Regulation Authority (APRA).

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