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My fellow Accountants and members of IPA - Federal Budget 2016.

It has now been two weeks since the Budget was announced, and a number of sweeping changes to superannuation caught many by surprise primarily due to lack of industry consultation. It is now clear that in the controversy since Budget night, the Treasurer took virtually all his advice from Treasury officials; the majority being in Defined Benefits Funds.

1. Defined benefit scheme changes have now given public servants a cap of $100,000 per annum for fully indexed pensions. Above this level, they are fully taxed.
2. Public servants have the ability to utilize the $500,000 lifetime non-concessional cap outside of the Government system. Effectively they can double dip with these concessions.

Positive announcements:-

1. The work test has been abolished for people under age 75 from 1 July 2017.
2. Abolition of the 10% rule.
3. Extend deductions for personal contributions for all people under age 75.

Controversial and negative announcements:-

1. Concessional caps reduced to $25,000. Many Australians are unable to save significant amounts into superannuation during the first two decades of working life. Often only significant contributions are made into superannuation in the final 10 years of working life. Under this new policy gross contributions will be limited to $250,000 over that period. This is entirely inadequate.
2. The big surprise in the Budget was the lifetime non-concessional cap of $500,000 retrospective from 1 July 2007. With the reduction in concessional contributions, this is a double attack on private savings. We are told that the money saved is being used to cut company tax. The cap is too low and should not have been retrospective. Currently the Treasurer and Assistant Treasurer (Kelly O' Dwyer) are claiming that these moves are not retrospective.
3. Some investment timing and lifecycle risks of this cap. A member suffers an investment loss; e.g. GFC. SMSF have entered into a contract pre Budget night. Impacts for small business who cannot immediately place large amounts into superannuation and make it harder for small business owners to have their business premises owned by their super fund. . Transfers from overseas to Australian superannuation funds. Older Australians now limited to amounts of $500,000. Pension withdrawals at 5% mean their pension could be restricted to $25,000 per annum.
4. Controversially, the Treasurer capped the amount in pension phase to $1.6M from 1 July 2017. Any excess has to be transferred back to superannuation accumulation phase and taxed at 15% on income and 10% on capital gain. No grandfathering provision was allowed. This penalizes those who followed existing rules and provided for their own retirement. Many such superannuants will now look at alternative strategies outside of superannuation e.g. property and share investments. Many such superannuants in pension phase will review the capital gains they have made and seek alternative strategies and investments prior to 1 July 2017. The tax receipts expected by the Treasurer and advisers at Treasury may not materialize.

Some research post the Budget.

1. Core Data's Post Retirement Research Report shows that the average retiree expects to need a balance of $804,559 to maintain their desired lifestyle.
2. This research shows that the average balances at retirement for men was $292,500 and for women this is only $138,150.
3. Graham Hand of Cufflinks Investment Newsletter did a survey that attracted over 700 responses. Highlights were; 85% did not support changing the current concessional contribution caps, 77% supported the current non concessional contributions and the $540,000 bring forward rule, 55% did not support the "abolition" of Transition to Retirement Pension,77% said to leave superannuation alone for at least 3 years to stop it being a political football.

There will be another Budget between now and 1 July 2017. It may indeed be Chris Bowen's first budget. However even if it is the current Treasurer, what has been amply displayed is that the Liberal Government has little regard for those who have properly planned for their retirement within the existing legislative framework. It will therefore be of little surprise if investors lose confidence in the Australian Superannuation System.

IFM Securities Pty Ltd is independently owned and has held its own Australian Financial Services License since 1998. IFM provides superannuation advice and investment management and prefers to use direct investments, property, shares, government bonds and fixed interest securities instead of managed funds.

Regards
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