

The Australian superannuation system is already complex to navigate without the added uncertainty of looming changes. These changes may not even eventuate if the Coalition fails to gain the support it needs in parliament.

Superannuation reform was a key feature of the 2016-17 Budget handed down the week before the election was called. The [Coalition](#), [ALP](#) and [Greens](#) all acknowledge in their policies that the current system of tax concessions favours the wealthy, who are able to contribute more to superannuation.

However the three detailed policies take different paths to reform and the final outcome may be determined by the balance of power in the new government.

Low income earners

Firstly, all are agreed that low income earners should not pay more tax on their superannuation than on their other earnings. The Low Income Superannuation Contribution is due to be repealed with effect from 30 June 2017: the Coalition and ALP propose to allow a tax credit of 15% that will effectively cancel the tax paid by the superannuation fund on contributions by low income earners.

The Greens propose a progressive tax on contributions, with a nil rate for low income earners, and would also allow a government co-contribution of 15% for people earning less than the tax free threshold of A\$18,200.

Concessional (untaxed) contributions

The concessional contribution caps for the 2016-17 year are \$30,000 or \$35,000 for people over 50. The Coalition has proposed reducing the cap to \$25,000, effective from 1 July 2017. The ALP and the Greens has not proposed any changes to these caps. However the Greens do propose a progressive tax rate on contributions based on a discount of 15% on the marginal tax rate on the contributor's income.

Currently superannuation contributions are taxed at 30% instead of 15% to the extent that the

contributor's income, including superannuation contributions, [exceeds \\$300,000](#) . Both the ALP and the Coalition will reduce that threshold to \$250,000. Under the Greens progressive tax sale this threshold would be reduced to \$150,000.

Non-concessional (taxed) contributions

There is a clear difference between the Coalition and ALP policies.

Non-concessional contributions allow a person to contribute after tax funds into superannuation, which pays a flat rate of 15% tax on investment earnings, instead of the marginal rate of tax that would apply if invested personally. For 2016-17 a person can invest \$180,000 pa or \$540,000 over three years.

The Coalition proposes a lifetime cap of \$500,000, including any contributions made after 2007. Where a person has already exceeded the cap there would be no penalty, but further contributions would not be permitted.

The ALP has not made any proposals in relation to the cap, and has [campaigned against](#) including pre-budget contributions in the lifetime cap.

Tax on earnings of the superannuation fund

Currently superannuation fund earnings are taxed at 15% until it starts to pay a pension. From that time the superannuation fund pays no tax on income set aside to pay the pension. Both major parties propose to limit this exemption, but will use different mechanisms.

The Coalition Transfer Balance Cap proposal caps the value of the assets that can earn exempt income at \$1.6 m. The balance over this cap can remain in a fund taxed at 15%.

The ALP will exempt income up to \$75,000 pa, which represents a return of about 4.7% on \$1.6 m.

Although the outcomes are comparable, ultimately the ALP proposal gives more certainty in planning future income streams, as the exempt amount is less dependent on the rate of return achieved by the superannuation trustee.

Superannuation pension streams

There have been no proposals to remove the tax exemption for pensions received by a person over 60, or to change the tax concessions on lump sum withdrawals.

However the Coalition has proposed a change to the tax concessions on transition to retirement schemes. Currently such arrangements are built on the income of the superannuation fund becoming exempt from tax: the Coalition has proposed removing this exemption in the fund which will reduce, but not eliminate, the tax benefit. The ALP has no policy in this area, but has campaigned against the proposal.

Prospects for reform

It's highly likely that the changes to the lifetime cap will proceed, with the support of both parties. The extension of a 15% credit to the superannuation account of low income earners will also proceed; regardless of who forms government. Both of these measures are likely to be supported by the Greens and Nick Xenophon Team as well as the two major parties.

The other budget proposals must pass two hurdles. Assuming that the Coalition does gain enough seats to form government, the election campaign highlighted division among the conservatives in respect of the lifetime cap on non concessional contributions, the cap of \$1.6 million in pension assets and the changes to transition to retirement pensions.

If these measures are presented to the parliament, the position of the ALP is not clear. Although the published policy says no measures other than the lifetime cap change and the cap on exempt earnings will be introduced, there have been suggestions that the ALP will consider some of the other measures.

It's unlikely that the ALP will support measures that it regards as [retrospectively changing the rules](#). However it would not be unusual to backdate any new limits to budget night when investors were given notice of the

proposals.

Without the support of the ALP, the Coalition would have to convince the Senate crossbenchers of the merits of the reforms.

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