Heffron

Adjusting to a new tax

June 2023

Where are we now?

28 Feb

Announcement : more tax for anyone with > $3m in super

1 March

Details via a Factsheet

31 March

Consultation paper

No legislation yet (even in draft form)

Intended start :

2025/26 financial year

First tax bills in 2026/27

Proposed new tax in a nutshell

3 essential elements (and lots of extra issues)

For <u>individuals</u> with <u>total super balances</u> of > $3m:

1. Extra tax of **15%** on <u>some</u> of the earnings in their super fund.
2. Send the bill to the member personally.
3. Allow super withdrawals to pay the tax if they want to

$3m is everything (pension + accumulation). Not indexed.

Unpacking the key terms

How much of the earnings is subject to this tax?

Brad has \$5.5m in super at 30 June 2026 (end of the year)

The % of earnings in 2025/26 subject to the new tax:

$$\frac{\$5.5m - \$3m}{\$5.5m} = 45.45\%$$

What is the formula trying to do?

Work out the % of the earnings that relates to Brad's "excess" balance (over \$3m).

Earnings amount

Imagine Brad’s member statement (all his accounts combined):

Super at start of year

\+ Contributions ← Contributions **less** contributions tax

− Withdrawals ← Pensions, lump sums

\+ Earnings — The “earnings” to be taxed

Super at end of year

For example, Brad's earnings:

Super at start of year

Contributions

Withdrawals

Earnings

Super at end of year

Brad's total super is $5m :

- $2m pension
- $3m accumulation account

$300k downsizer

$100k from his pension

$5.5m

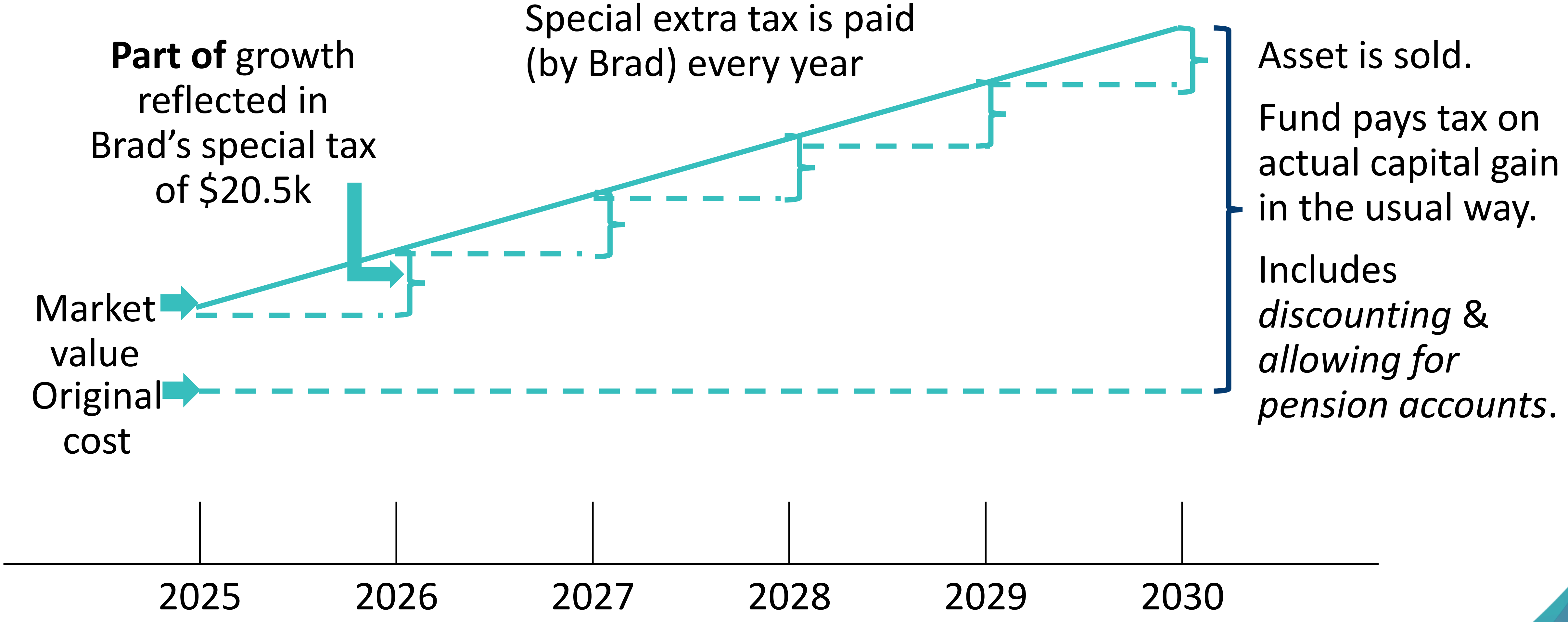
Earnings = $5.5m - $5m - $300k + $100k = $300k

Only <u>some</u> (45.45%) of this is taxed. Tax is:

15% x 45.45% x $300k = $20.5k

Super fund tax v special extra tax

Heffron



What if earnings are negative?

- No refund of tax paid in previous years
- $200k loss is **carried forward** (reduce future earnings)
- Those future earnings could come from:
  - Rebound in asset value
  - Other income (rent, dividends, interest etc)
- What if there aren’t any?
  - Brad removes a lot of his super, falls under $3m
  - Asset values never recover and there’s not enough other income

Looks like it’s too bad

Let's dig deeper

Exploring the earnings formula

Heffron

3 key components

Net Contributions

Withdrawals

Total Super Balance

Net contributions

(We want as many as possible – lower earnings)

- As well as the usuals what will be included?
- Some seem likely / logical:
  - Reversionary / death benefit pension (in the first year)
  - Insurance proceeds (eg TPD)
  - Receiving a family law split, contribution split
- What about:
  - Reserve allocations?
  - Transfers from foreign super funds

Withdrawals

(We want as few as possible – lower earnings)

- Presumably, any “benefit payment” which includes:
  - Normal pensions, lump sums
  - Div 293, release of excess contributions
  - Family law or contribution split <u>from</u> the member’s account
- What about:
  - Payments to meet this new tax itself?

Total Super Balance

(Concept is well known, will there be any adjustments?)

I am hoping for two (neither should be included for this measure):

- LRBA amounts (sometimes included in TSB)
- Excess transfer balance earnings (permanently included in TSB - a fluke of the formula)

Can Brad trick the formula?

Heffron

Super at start of year

+ Contributions

− Withdrawals

+ Earnings

Super at end of year

Brad's total super is \$5m :

- \$2m pension
- \$3m accumulation account

\$300k downsizer

\$1.1m : pension *and* another \$1m at end of the year

\$4.5m

$$\frac{\$4.5m - \$3m}{\$4.5m}$$

Earnings = **\$4.5m** - \$5m - \$300k + **\$1.1m** = \$300k (ie no change)

But less of it will be taxed (33.33% rather than 45.45%).

Tax is : 15% x 33.33% x \$300k = \$15k

So can Brad trick the formula?

A big withdrawal won’t reduce the earnings amount

but

A lower TSB will mean less of the earnings are taxed

Helping clients plan

Heffron

1. Don’t take assets out “now”

- It’s just a proposal, and
- Only taxed on **incremental future** gains – not historical ones
  - Realising gains now means paying tax in the fund
- Investing via other entities not always the answer
  - Might be better while assets are growing
  - But worse when you sell

2. Don’t stop adding to super yet

- Many contributions have other benefits
- May be worth making them even if decide to withdraw later:

Type	Driver / use
Concessional	Still get a tax deduction “now”
CGT Exempt	Some reduce / remove CGT on business asset sale All come in tax free (recontribution value)
Downsizer	Don’t miss the opportunity + possible recontribution

3. Even balances more critical

Couples at risk of exceeding $3m for one should even up

Will take time:

- Contribution splitting
- Re-contributions to the lower balance spouse
- Member investment choice ***between*** spouses?
  - High growth assets allocated to spouse with the lower balance

4. *Consider* minimising TSB

Tax effect accounting

- But not until 30 June <u>2026</u>
- Biggest impact will be in the first year
- And be careful – this could bite later

Other expenses (eg disposal costs), but remember:

- Need some consistency
- Timing differences aren't necessarily useful – they will flow through to earnings eventually

In a nutshell

It’s likely this tax, or something like it, is coming

There’s a lot we don’t know – don’t jump the gun

But expect it to come in

And don’t hope for major changes

Disclaimer

This presentation is based on our understanding of the law as at 27 May 2023 and is for general information only. This presentation does not constitute financial product advice and has been prepared without taking into account any individual's personal objectives, situation or needs.

Every effort has been made to ensure that it is accurate, however it is not intended to be a complete description of the matters described. Furthermore, it is not intended that it be relied on by recipients for the purpose of making decisions and is not a replacement of the requirement for individual research or professional tax advice. This slide handout was accompanied by an oral presentation, and is not a complete record of the discussion held. No part of this presentation should be used elsewhere without prior consent from Heffron.

Heffron