PROPOSED SUPERANNUATION TAX CHANGE FOR HIGH BALANCES OVER $3 MILLION: WHAT YOU NEED TO KNOW

The initial shock of the proposed superannuation tax change for high superannuation balances has subsided. Now, work has begun to determine how to implement the proposals to provide the anticipated revenue without costing the industry and members, who are not the intended target.

On 31 March, the Government released a consultation paper, 'Better Targeted Superannuation Concessions', which provided further detail on the operation and posed questions to industry stakeholders.

What we know

- Individuals with a Total Superannuation Balance (TSB) greater than $3 million on 30 June each year (first tested on 30 June 2026) will be subject to an additional tax of 15%.
- The additional tax will only be payable on the calculated earnings attributed to the balance that exceeds $3 million, bringing the total tax payable to 30% on the amount over $3 million.
- The $3 million threshold will not be indexed.
- The calculated earnings will be based on the member's total superannuation balance at the start and end of the financial year and an adjustment will be made for any contributions and withdrawals.
- Any negative earnings can be carried forward to offset additional tax the member becomes liable to in future years.
- Similar to the Division 293 tax, the additional tax can be paid by the individual or released from superannuation.
- The additional tax will be imposed separately from personal income tax, and like Division 293 tax, it cannot be reduced by personal deductions, offsets, or losses.
- The proposed change will begin on 1 July 2025, and the financial year ending 30 June 2027 is expected to be the first year the impacted individuals will be issued a notice of tax liability by the ATO.

How the calculations will operate

The Government is making a focused attempt to minimise the implementation cost to the industry. They have proposed the following formulas to calculate the tax liability on balances over $3 million, having controlled for contributions and withdrawals.

Calculated earnings = TSB at the end of the current financial year – TSB at the end of the previous financial year + withdrawals – net contributions

Proportion of earnings that are taxable = (TSB at the end of the current financial year – $3 million) / TSB at the end of the current financial year

Tax liability = 15% x calculated earnings x proportion of earnings that are taxable

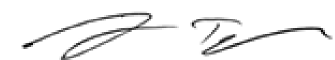
If a member's TSB was below $3 million in the previous financial year but grows above $3 million, the $3 million threshold will be used instead of the actual balance at the end of the previous year. Similarly, if the TSB drops below $3 million in the current financial year, the $3 million threshold will be used instead of the actual balance.

Advice considerations

Even with the additional 15% tax on calculated earnings, superannuation will still be an attractive structure for those on the top marginal tax rate of 47%, including the Medicare levy. Despite this, the proposal has created plenty to consider, for example:

- A couple can maximise their total superannuation tax concessions by splitting member balances evenly through contributions and splitting strategies.
- Explore alternative investment options, such as a family trust.
- Consider the effectiveness of any Limited Recourse Borrowing Arrangements if the outstanding balance is included in the TSB.
- Cashflow considerations for impacted SMSFs where the fund and members personally have restricted cashflows to pay the additional tax.
- Conditions of release if the excess over $3 million is withdrawn from superannuation.

There is still a lot of dust to clear before the proposal is implemented, if you would like to discuss the changes in more detail, please contact your Bell Potter adviser.



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