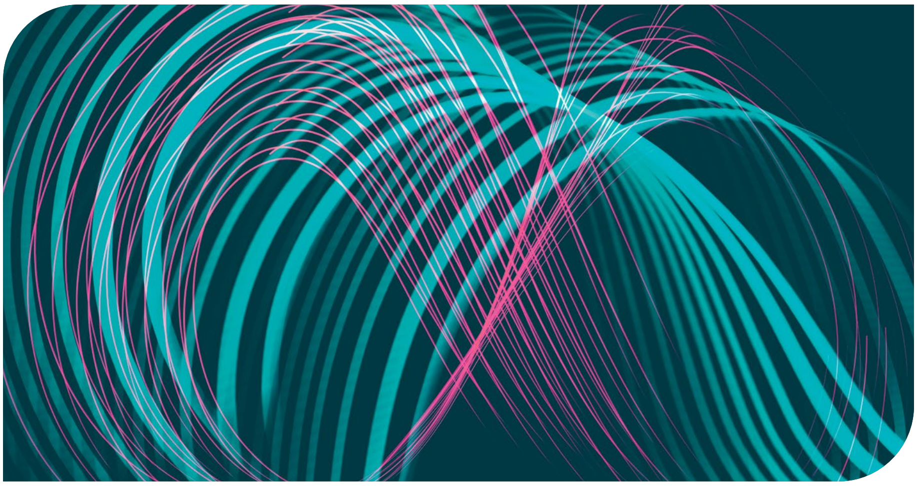
Nexia Australia



Superannuation Solutions

Edition 24

Welcome

Welcome to the latest edition of our Superannuation Solutions Newsletter.

In this edition we discuss general and shortfall interest charges, the future of division 296, further information on payday super and details around the increase of the transfer balance cap.

We hope you find this newsletter informative. Should you have any questions in relation to how these changes may impact you, please contact one of our SMSF Specialists.

Important Dates

15 May 2025
Due date for lodgement of most SMSF 2024 annual returns and payment of tax.

28 May 2025
Due date for lodgement of SGC statement if insufficient super contributions were made for the March 2025 quarter.

GIC and SIC not deductible after 30 June 2025

Clients should be aware that general interest charges (GIC) and shortfall interest charges (SIC) in relation to assessments for income years starting on or after 1 July 2025 will not be tax deductible.

General interest charge is imposed on a daily basis if an amount of tax or some other liability remains unpaid after the date it should have been paid.

Shortfall interest charge rather than general interest charge is imposed if a tax return is amended and there is a tax shortfall. This is because taxpayers are usually unaware of a shortfall amount until they receive an amended assessment.

Both GIC and SIC are imposed on a daily compounding basis. The ATO may remit either in whole or in part in certain circumstances.

This change will have the effect of substantially increasing the after-tax cost of paying tax late or receiving a debit amended assessment.

What is the future of division 296?

The Federal Government's plan to impose an additional 15% tax on individual super balances greater than $3m from the 2025-26 year has been strongly opposed by many stakeholders. They have argued that it was poorly designed and would be unfair in its operation, and that the Government has not listened to the legitimate concerns of experienced professionals in the industry.

The annual change in a member's total super balance is used as the basis for the proposed new tax. Consequently, the tax will bring to account unrealized gains on assets in super funds, as these are included in a member's total super balance. The ATO calculates each person's total super balance from information provided by super funds, and this number is also used in assessing eligibility for a number of super provisions.

The use of the annual change in a member's total super balance arises from the need to apply the tax to large APRA funds as well as SMSFs. Unlike SMSFs, the large APRA funds cannot calculate a figure for taxable income on an individual member's account. The Association of Super Funds of Australia, which represents the large APRA funds, has come out in favour of the new tax.

The Government was unable to convince the members of the Senate cross bench to support the new tax, and as a result the legislation did not pass through Parliament before the 3 May Federal Election.

After the election, the Labor Government has increased its majority in the House of Representatives and is likely to gain seats in the Senate. The Senate result is particularly interesting, as the Labor Party may not need the support of the cross bench senators to pass legislation. Instead, it may be able to pass legislation with the support of only the Greens. The Greens have previously indicated their support for the new tax.

The proposed changes remain politically sensitive for the Federal Government. A number of industry leaders have spoken out against the planned taxation of unrealized gains, adding their weight to the opinion of many people in the super industry. However, the Federal Government will feel strengthened in its resolve to introduce the new tax by the result of the Federal Election.

We will have to continue to watch developments closely.

More information on Payday Super

In previous editions of our Super Solutions Newsletter we have reported on the proposed changes to the super guarantee charge (SGC) system, known as "payday super" (PDS). In place of the current SGC system under which employers have up to the 28th day after the end of each quarter to make super contributions in relation to ordinary time earnings during that quarter, under PDS employers will be required to make contributions within 7 days of each payday. The new system is intended to operate from 1 July 2026.

On 14 March 2025 draft legislation and explanatory material were released. The following comparison between the old and new systems is adapted from the explanatory material.

Current system	Payday Super
Calculation of SGC shortfalls	
SG charge is imposed on employers if they have an SG shortfall for the quarter. This happens if they have one or more individual SG shortfalls for the quarter.	SG charge is imposed on employers if they have an SG shortfall for a QE day (a day on which they pay qualifying earnings to an employee). This will happen if they have one or more individual base SG shortfalls, for the QE day.
On-time SG contributions (within 28 days after the end of the relevant quarter) reduce the charge percentage amount (including to nil), with which the employer's individual SG shortfalls are calculated.	Eligible contributions made on-time (generally within 7 days after the QE day) reduce the individual base SG shortfalls for a QE day, including to nil. An eligible contribution is made when it is received by the relevant superannuation fund and able to be allocated to the relevant employee's account.
Employers have an individual SG shortfall for an employee for a quarter, which can be reduced by making SG contributions to that employee's superannuation fund	Employers have an individual SG amount for an employee in relation to the relevant QE day for that employee. The employer's individual base SG shortfall is then calculated as the individual SG amount minus any on-time eligible contributions. In practice, prior to the employer making any eligible in-time contributions that can be applied to the relevant QE day, the individual SG amount for an employee and the individual base SG amount for the employer are the same amount when qualifying earnings are paid.
Employers can elect to have late SG contributions (other than a sacrificed contribution) offset the nominal interest component for that quarter, and any remaining amount can be used to offset the individual SG shortfall for that employee for that quarter.	Eligible contributions that are not on time but made prior to an SG charge assessment will be applied to calculate the individual final SG shortfall amount for the relevant employee.
SG contributions made in a quarter may be treated as if they had been made during a future quarter up to 12 months after the beginning of the quarter in which the contribution is made (typically referred to as a "carry forward").	Eligible contributions are automatically applied to the earliest QE day that they can be applied to. Any eligible contributions in surplus of the individual base SG shortfall for a QE day will be attributed ("carried forward") to the next QE day that has an individual base SG amount not yet covered by other contributions. This roll over will occur regardless of whether the contribution is on time. Contributions may be "carried forward" up to 12 months after the day they are made.
The maximum contribution base limits the amount of OTE for which an employer will have an SG shortfall. It is worked out quarterly, and is the lower of: 1. the previous maximum contribution base for a quarter in the previous year multiplied by an indexation factor, and 2. one quarter of the charge percentage, divided by 100, multiplied by the concessional contributions cap.	The maximum contributions base limits the amount of qualifying earnings for a year for which an employer can have an individual superannuation guarantee amount. The maximum contributions base is calculated as the concessional contributions cap, multiplied by 100, and divided by the charge percentage. The charge percent is expressed as the whole number, without being a percentage or decimal.

Current system	Payday Super
Calculation of SG Charge	
Employers' total SG shortfall for the relevant quarter comprises: 1. the total of their individual SG shortfalls for the quarter; 2. the sum of all nominal interest for the quarter; and 3. any administration component for the quarter.	Employers' total SG shortfall for the relevant QE day comprises: 1. the total of their individual final SG shortfalls for the QE day; 2. the sum of all individual notional earnings components for the QE day; 3. any administrative uplift amount for the QE day; and 4. the total of the employer's choice loadings for the QE day (if any).
Nominal interest component of the SG shortfall amount is calculated by applying the interest rate prescribed by the regulations, to the total individual SG shortfalls for the quarter, from the beginning of the quarter until the date on which the SG charge imposed would be payable.	The individual notional earnings component for an employee is calculated by applying the general interest charge rate to the individual base SG shortfall, on a daily compounding basis until the day a late eligible contribution is made that reduces the relevant individual final SG shortfall for the employee to nil, or otherwise until the day an SG charge assessment is made.
The administration component of the SG shortfall amount is calculated by multiplying $20.00 by the number of employees in respect of whom employers have an individual SG shortfall for that quarter.	Employers have an initial administrative uplift amount of 60 per cent of the sum of their individual final SG shortfalls and individual notional earnings components for an QE day. The regulations will set out any reduction of this amount (including to, but not below, nil) that is available to an employer.
Employers may face additional SG charge (the "Part 7 penalty") if they fail to lodge an SG statement or supply information relevant to assessing their SG charge liability by the end-of-quarter due date. The additional SG charge can be up to 200% of the amount payable and can be remitted by the Commissioner.	When an amount of SG charge is unpaid 28 days after becoming payable, the Commissioner is required to give the employer a written notice to pay the outstanding amount. The employer will become liable to pay a penalty if they do not pay the amount in the notice within 28 days of the notice being issued. The penalty is equal to 25% of the outstanding amount, or 50% of the outstanding amount if the employer has previously been liable for the penalty in the prior 24 months. The penalty cannot be remitted and does not accrue a general interest charge.
Administration	
Employers with an SG shortfall for a quarter must lodge an SG Statement on or before the 28th day of the second month of the next quarter. An employer who fails to do this is liable, by way of penalty, to additional SG charge.	Employers with an SG shortfall for a QE day may lodge a voluntary disclosure statement before the day an assessment is issued by the Commissioner for the QE day. While lodging an SG statement is no longer mandatory, lodging a complete and accurate voluntary disclosure statement before SG charge is assessed may reduce the administrative uplift component of the SG shortfall for that QE day.
The lodgement of an SG Statement is taken to be an assessment of the employers' SG shortfall amount for that quarter. If an employer has not lodged an SG Statement for a quarter, and the Commissioner is of the opinion that they are liable to pay SG charge for that quarter, the Commissioner may make a default assessment.	The Commissioner may assess an employers' SG shortfall for a specified QE day. The Commissioner may make this assessment: 1. if the employer has lodged a voluntary disclosure statement for the QE day; or 2. on their own initiative. The SG charge is payable on the day the assessment is made.

PDS demands that employers be able to remit contributions so that they are received by super funds in a form that can be allocated to members' accounts within the 7 day time limit. The experience to date of many employers shows that this may be a hard ask, taking into account issues with payroll systems, data integrity and delays in payment systems.

Under PDS employers will no longer lodge SG statements, but the Commissioner will use data available through sources including employer voluntary disclosures, single touch payroll and super fund reporting to determine the amount of SG charge and issue an SG charge notice of assessment.

As we pointed out in our Newsletter 22, it remains to be seen whether SMSFs can be compelled to report the receipt of contributions promptly. This issue is not addressed in the draft material. Previous studies have shown that the three biggest SMSF platforms (Class, BGL and Super Concepts) between them account for about 67% of registered SMSFs. This implies that up to one third of all SMSFs are still maintained in forms like Excel spreadsheets or even on paper.

The PDS framework will change the rules for tax deductibility of contributions and the SG charge. Currently only on-time contributions are deductible. Under the new framework, both on-time and late contributions will be deductible. The SG charge will now also be deductible. This reflects the fact that the SG charge is a substitute for the payment of superannuation contributions. Any applicable GIC or late payment penalty related to SG charge will not be tax deductible.

Please contact your Nexia advisor if you have questions in relation to this or any other topic.

Transfer balance cap to increase to $2 million on 1 July 2025

In Newsletter 23 we advised that the general transfer balance cap will increase from $1.9m to $2.0m on 1 July 2025. This can create planning opportunities for clients.

In particular, the increases in the caps that apply to the non-concessional contributions 3-year bring forward rule may open up new opportunities for super fund members in the 2025-26 tax year, provided the member is under 75 at some time during the year.

The existing and new caps are set out below:

2024-2025	2024-2025	2025-2026	2025-2026	
Total super balance on 30 June of previous year	Non-concessional contributions cap for the first year	Total super balance on 30 June of previous year	Non-concessional contributions cap for the first year	Bring-forward period
Less than $1.66m	$360,000	Less than $1.76m	$360,000	3 years
$1.66m to less than $1.78m	$240,000	$1.76m to less than $1.88m	$240,000	2 years
$1.78m to less than $1.9m	$120,000	$1.88m to less than $2.0m	$120,000	No bring forward period. General non-concessional contributions cap applies.
$1.9m or more	Nil	$2.0m or more	Nil	Non-concessional contributions cap is zero.

Your Nexia advisor can discuss with you the details of how these changes may be beneficial to you.

We also summarise a number of important superannuation rates and caps for your convenience, especially where they will change from 1 July 2025.

	2024-2025 year	2025-2026 year
Concessional contributions cap	$30,000	$30,000 (unchanged)
Non-concessional contributions cap	$120,000	$120,000 (unchanged)
Super guarantee contribution rate	11.5%	12%
SGC maximum contribution base	$65,070 per quarter	$62,500 per quarter
Div 293 adjusted tax income threshold	$250,000	$250,000 (unchanged)
General transfer balance cap	$1,900,000	$2,000,000
CGT small business concession lifetime contributions cap	$1,780,000	$1,865,000

Nexia Australia

Who we are

At Nexia Australia, we're here to help you achieve your goals and plan for future success with bespoke solutions and personalised, practical advice. Equipped with unparalleled experience and expertise in advisory, tax, audit, business strategy, personal wealth services, and strategic thinking, we're the team you can trust to empower you to achieve your objectives and reach new heights.

We specialise in several key industries and cater to a wide range of clients, from small to medium-sized businesses to large private company groups, not-for-profit entities, subsidiaries of international companies, publicly listed companies, and high-net-worth individuals. We've had the privilege of working with market leaders in many sectors of Australian and New Zealand business, and we're here and ready to help you too.

We take pride in being responsive, progressive, and proactive in identifying and implementing the solution to your success.

Contact us

Learn how Nexia Australia can help set you and your organisation up for success. Contact your local Nexia Advisor below to get started.

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