Navigating the indexation roundabout

Keeping ahead of an ever-changing superannuation environment

Rainmaker Information

As with the commencement of each financial year, 1 July brings with it more changes to the various superannuation rates and thresholds.

However, the indexation of only some of the key superannuation thresholds on 1 July 2025 adds an additional layer of complexity to understanding and complying with the ever-evolving superannuation environment.

Super Guarantee rises—for the last time (?)—from 1 July 2025

Although not subject to indexation from 1 July, the superannuation guarantee (SG) rate will increase from 11.5% to 12%. As the last of the previously announced increases, the 12% rate represents the currently legislated peak SG rate.

SG opt-out for high-income earners

An anomaly owing to the rise in the SG rate to 12% from 1 July 2025 combined with the *non-indexation* of the concessional contribution cap will cause the maximum contribution base to fall in 2025/26.

The maximum contribution base will decrease to $250,000 from 1 July 2025—down from $260,280—or to $62,500 per quarter (from $65,070 per quarter in 2024/25). This reduction is because the relevant legislation provides that the maximum contribution base for a quarter cannot exceed the quarterly salary which, if paid, by an employer would give rise to a SGC contribution by that employer equal to one quarter of the concessional contribution cap.

High-income earners with multiple employers can opt out of the SG regime in respect of an employer to avoid unintentionally breaching the concessional contributions cap.

SG example

If Jerome's employer pays a 12% SG contribution on his quarterly salary of $64,000 this would result in superannuation contributions of more than $7,500 per quarter— and more than one quarter of the annual concessional contributions cap of $30,000—leading to excess concessional contributions for Jerome over the 2025/26 year.

Contribution caps to remain at 2024/25 levels

Under the current indexation rules there will be no indexation applied to the superannuation contribution caps from 1 July 2025.

As a result:

- the *concessional contributions (CC) cap* will remain at $30,000.

- the *non-concessional contributions (NCC)* cap—calculated as four times the concessional contributions cap—will remain at $120,000.
- *Two- and three-year bring forward limits* will remain unchanged at $240,000 and $360,000 respectively from 1 July 2025.
- the *unused carry-forward concessional* total superannuation balance threshold is also not indexed. This limits the concessional contributions that can be made under the *five-year carry forward rules* by members who have a total superannuation balance on the previous 30 June of less than $500,000. On 1 July 2025, any unused concessional cap amounts from 2019/20 will expire and be no longer be available to use.
- the $300,000 total superannuation balance threshold—as at the end of the previous financial year—for determining eligibility for the *work test exemption* is not indexed.

Indexed thresholds from 1 July 2025

Government co-contribution income thresholds

The income thresholds for the co-contribution will be indexed in line with average weekly ordinary earnings (AWOTE).

For the 2025/26 income year the lower income threshold—for full entitlement—increases to $47,488 from $45,400 while the higher income threshold and cut-off for eligibility rises by the equivalent dollar amount to $62,488 from $60,400.

However, the maximum government co-contribution entitlement for 2025/26 remains at $500.

General transfer balance cap

The general transfer balance cap (TBC) is a limit on the total amount of superannuation that can be transferred into the retirement phase and is indexed periodically to the CPI in $100,000 increments. From 1 July, this cap will increase from $1.9 million to $2 million.

Total super balance cap

The value of the general transfer balance cap is used to determine the total super balance (TSB) threshold which in turn affects eligibility for making non-concessional contributions and spouse contributions, as well as receiving Government co-contributions. The TSB will also increase to $2 million from 1 July 2025 in line with the TBC.

When determining eligibility for contributions, the total super balance is measured as at the previous 30 June, not at the time a contribution is made.

Bring forward arrangements for non-concessional contributions in 2025/26

The bring forward arrangements for the 2025/26 financial year are set out in Table 1 and are based on an unchanged annual NCC cap of $120,000 in combination with the TBC newly indexed to $2 million.

More thresholds indexed to AWOTE in 2025/26

- The *small business CGT cap* increases by $85,000 to $1,865,000 for the 2025/26 year.
- The *untaxed plan cap*—for lump sums paid from untaxed superannuation schemes—also benefits from the same increase to $1,865,000
- The *defined benefit income cap* will also be indexed up to $125,000 from $118,750.

Superannuation on paid parental leave

Superannuation will be paid on the 20 weeks of government-funded paid parental leave from 1 July 2025. Parents of babies born on or after 1 July 2025, will receive 12% SG contributions on top of their government-funded parental leave.

This addition of superannuation payments to paid parental leave will come into effect at the same time that the paid parental leave timeframe increases to 24 weeks (from current 22 weeks). This timeframe will increase again to 26 weeks in 2026.

Looking back to 1 July 2017

The changes to the superannuation rates and thresholds coming into effect on 1 July are very much a continuation of the evolving superannuation environment that was radically reformed by measures introduced in the 2016/17 federal budget.

Table 2 on the next page provides a snapshot of the changes to the key superannuation rates and thresholds following the significant changes to the superannuation rules implemented from 1 July 2017.

As shown by Table 2, owing to the fact that some key superannuation thresholds are indexed in line with AWOTE while others are indexed in line with CPI, there is and will continue to be the need to 'navigate the indexation roundabout' while ever the current superannuation rules remain in place.

Looking ahead to 1 July 2026

Payday Super

From 1 July 2026, employers will be obligated to pay superannuation guarantee (SG) on behalf of their employees on the same day as salary and wages instead of the current quarterly payment sequence.

Under payday super, the due date for SG payments will be seven days from when an ordinary times earning (OTE) payment is made. That is, employers have seven days from an employee's payday for their SG to be received by their superannuation fund. This provides time for the movement of funds through the payment system, including clearing houses. An employer will become liable for the new SG charge unless the SG contributions are received by their employees' superannuation fund within seven calendar days of payday.

Table 1. Bring forward arrangements in 2025/26 versus 2024/25

TSB on June 2024	Max NCC cap during bring forward period	TSB on June 2025	Max NCC cap during bring forward period	Bring forward period
Less than $1.66 million	$360,000	Less than $1.76 million	$360,000	3 years
$1.66 million to less than $1.78 million	$240,000	$1.76 million to less than $1.88 million	$240,000	2 years
$1.78 million to less than $1.9 million	$120,000	$1.88 million to less than $2 million	$120,000	N/A
$1.9 million or more	$0	$2 million or more	$0	N/A

Source: ATO website

The quote

An anomaly owing to the rise in the SG rate to 12% from 1 July 2025 combined with the non-indexation of the concessional contribution cap will cause the maximum contribution base to fall in 2025/26.

Table 2. Historic rates and thresholds

Cap / Threshold	Indexed to	From 1 July 2017 ($)	From 1 July 2021 ($)	From 1 July 2013 ($)	From 1 July 2024 ($)	From 1 July 2025 ($)
Transfer balance cap	CPI	1,600,000	1,700,000	1,900,000	1,900,000	2,000,000
Total super balance	CPI	1,600,000	1,700,000	1,900,000	1,900,000	2,000,000
CC cap	AWOTE	25,000	27,500	27,500	30,000	30,000
NCC cap	4 x CCC	100,000	110,000	110,000	120,000	120,000
Two-year bring forward		200,000	220,000	220,000	240,000	240,000
Three-year bring forward		300,000	330,000	330,000	360,000	360,000

Source: firstlinks

The only exceptions are for new employees whose due date will be after their first two weeks of employment, and for small and irregular payments that occur outside the employee's ordinary pay cycle.

Note: At the time of writing this measure was not yet law.

Division 296 tax: Higher taxes on high super balances

Under the proposed Division 296 of the *Income Tax Assessment Act 1997*, members with an adjusted total superannuation balance over $3 million at 30 June each year will be subject to an additional 15% tax on a percentage of earnings equal to the percentage of superannuation balances that exceeds $3 million—not indexed—for an income year.

This Division 296 tax is to apply from 1 July 2026 and will be in addition to any tax superannuation funds pay on earnings in accumulation. As a result, earnings attributable to balances above $3 million will generally attract a combined headline rate of 30%.

The calculation of earnings mean that unrealised capital gains will be subject to the Division 296 tax. This is because 'earnings' for Division 296 purposes will be a calculated estimate of earnings and not actual 'realised' earnings.

The tax will be based on the member's year-end balance so, as the first year of operation will be the 2025/26 year, it is the member's adjusted total super balance on 30 June 2026, not 2025, that is relevant.

It is also important to note that this tax will be based on an individual's combined balances across all their superannuation funds, but not the combined balance of all members in an SMSF. This means that no tax liability would arise if each member of a two-member SMSF had a 30 June 2026 member balance of $2.5 million but it would apply if one member had $3.5 million while the other had $1.5 million.

Special rules for working out Division 296 tax will apply to individuals with defined benefit interests. For defined benefit interests, Division 296 tax will generally be deferred for payment until 21 days after the first benefit is paid from the interest. **FS**