Super Concepts

Turbo Charge your Client's Contributions

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But first….what you need to know

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Today's Agenda……

- Threshold changes due to indexation
- Contributions reserving
- Carry forward concessional contributions
- Non-concessional contribution considerations
- Post age 65 contribution strategies

Impact of indexation on contribution caps

Contribution cap indexation

- Contribution caps are being indexed for the first time since 1 July 2017
- From 1 July 2021
  - Concessional contribution cap rises to $27,500
  - Non-concessional contribution cap rises to $110,000
  - Bring forward non-concessional contribution cap rises to $330,000
  - Small Business CGT contribution cap rises to $1.615 million

Contribution cap indexation

- Thresholds will also rise from 1 July 2021 for other superannuation limits such as
  - Co-contribution range of $41,112 to $56,112
  - Maximum SG contribution base to $58,920 pr quarter ($235,680 per annum)
  - Low tax superannuation threshold to $225,000

Contribution reserving

Contribution reserving

- SIS Reg 7.11 permits contributions to be allocated later than the date received
- Must be allocated within 28 days after the month in which contribution is received
- SIS acceptance rules apply at the time the contribution is made but contribution caps are measured when contributions are allocated not made
- Effectively allows next years contribution to be made this year but count towards next years cap

How it works

- Tom, age 55, makes a contribution of $25,000 to his SMSF on 15 June 2021
- He also makes an additional contribution on 25 June 2021
- Tom intends to claim a personal deductible contribution in his 2020/21 personal tax return
- The Trustees determine that the contribution made on 25 June will not be allocated on receipt and hold it in an “unallocated reserve”
- After 1 July 2021 the trustees decide to allocate the amount from the “reserve “ to Tom

What this means

- The contribution of $25,000 made on 15 June 2021 counts towards his 2020/21 cap
- The contribution made on 25 June 2021 counts towards his 2021/22 cap
- Tom claims a personal deductible contribution in his 2020/21 personal tax return for both amounts
- The Trustees include both contributions in the assessable income for the SMSF in the 2021/21 tax return

Why do this?

- PRO
  - Unable to meet the work test in the 2021/22 year
  - Not being able to claim the amount in the 2021/22 year

- CON
  - However if implemented will affect timing of future year’s contribution

Carry forward concessional contributions

What is the rule?

- Unused portion of CC cap carried forward on a rolling 5 year period
- Effective from 1 July 2018 (2019/20 first catch-up opportunity)
- Not a bring forward entitlement
- Must have less than $500k in “total superannuation balance”
  - Measured at 30 June of prior year catch-up is **used**.

Who can access the catch up rule?

- Subject to the restriction of TSB > $500,000
  - Everyone - from the day you are born to the day you die!
  - Even members who cannot contribute have a concessional cap!
- Rule for claiming personal contribution as tax deduction is much easier (removal of 10% test)

How it works

Petro	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Concessional contributions	$10,000	$10,000	$10,000	$10,000	$10,000	$40,000*
Available unused cap	$15,000	$15,000	$15,000	$17,500	$17,500	$0

$27,500 cap for 2023/24 + $12,500 unused cap from 2018/19

*Must have less than $500k in total super as at 30 June 2023.

Lets consider Frank?

- Age 69 - retired in June 2019
- Made no contributions since then
- In 2024/25 has ordinary income of $40,000 including $5,000 from casual work
- Sells a property resulting in $175,000 assessable capital gain after discount
- Can Frank eliminate the tax on the Capital Gain?

Catch-up concessional

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Concessional contributions	$0	$0	$0	$0	$0	$160,000
Available unused cap	$25,000	$25,000	$27,500	$27,500	$27,500	$0

$27,5000 cap for 2024/25 + $132,500 unused cap from 2019/20 – 2023/24.

*Must have less than $500k in total super as at 30 June 2024.

Catch-up concessional - turbo charged

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Concessional contributions	$0	$0	$0	$0	$0	$175,000
Available unused cap	$25,000	$25,000	$25,000	$25,000	$25,000	$0

$27,500 cap for 2024/25 + $132,500 unused cap from 2019/20 – 2023/24 + $15,000 Contribution June 2025 "reserved".

*Must have less than $500k in total super as at 30 June 2024.

Bring forward non-concessional contributions

Non-concessional contribution caps

Total super balance on 30 June 2020	NCC cap for the first year	Total super balance on 30 June 2021	NCC cap for the first year	Bring forward period
Less than $1.4m	$300,000	Less than $1.48m	$330,000	3 years
$1.4m to less than $1.5m	$200,000	$1.48m to less than $1.59m	$220,000	2 years
$1.5m to less than $1.6m	$100,000	$1.59m to less than $1.7m	$110,000	No bring forward available
$1.6m or more	Nil	$1.7m or more	Nil	N/A

Note: If the bring forward rule is triggered, in subsequent years the total super balance must be under the general transfer balance cap.

Important issues with the change

- Higher TSB that allows full access to bring forward - $1.4 million rising to $1.48 million
- Maximum bring forward is set in year standard NCC is first exceeded
- Eg if $120,000 made in June 2021 maximum is set at $300,000 until 30 June 2023
- Consideration as to whether to delay triggering bring forward rule until 1 July 2021

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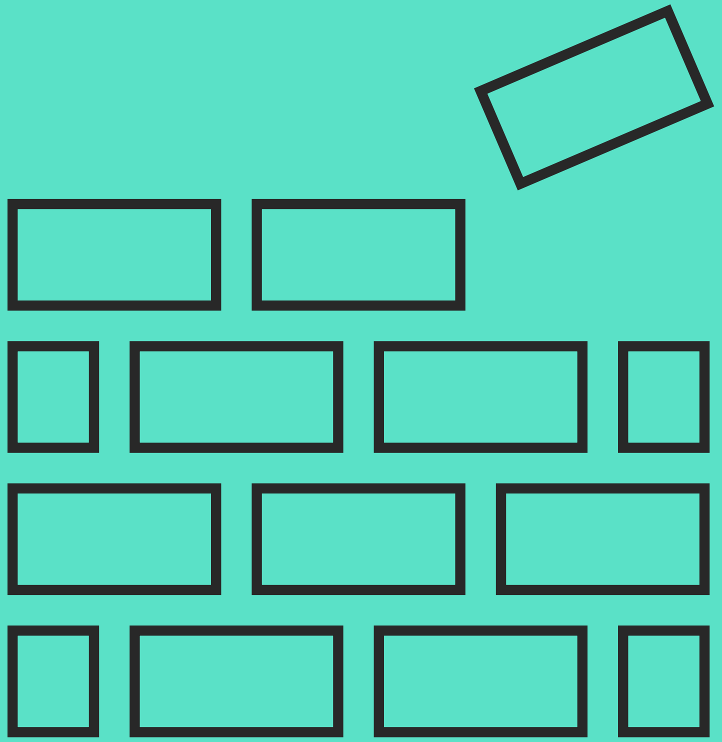
Post age 65 contribution strategies



Recent retiree contributions

- Applies from 1 July 2019
- Only relevant to those 67 and over
- Not gainfully employed in the current financial year
- Gainfully employed at least part-time in the previous financial year
- Has a Total Superannuation Balance of less than $300,000 at the previous 30 June, and
- Has not previously in any prior year made “recently retired” contributions

Recent retiree contributions

- Ellie, age 68, retires in June 2021 and met the work test in that year
- Has a total superannuation balance of $250,000
- Will not meet the work test in the 2021/22 financial year
- Wishes to make a non-concessional contribution of $100,000 and a concessional contribution of $25,000

Options available?

Changing the work test age

- From 1 July 2020 no work test until age 67
- Also proposed that bring forward will be available to be triggered prior to age 67 rather than 65
- legislation is currently stalled in Senate as of February 2021
- Needs parliament to become law

What contributions does the work test apply to?

- After age 67 applies to
- Personal contributions, spouse contributions, voluntary employer contributions and Small business CGT contributions

- Does not apply to
- Mandated employer contributions (SG or award) or downsizer contributions

The gamble?

- Ellie, turned age 66 in November 2020 , and meets the work test in this year
- Has a total superannuation balance of $750,000
- Will not meet the work test in the 2021/22 financial year
- What non-concessional contribution should be made in 2020/2021?

Changing the proscribed superannuation age

- At this stage, age for accessing super will not increase to 67
  - Currently, attaining age 65 is a CoR with nil cashing restriction
- Potential to use withdrawal & recontribution strategy between ages 65 & 67 regardless of working conditions
  - Reset tax-free/taxable components
  - Even out balances between spouses

Downsizer contributions

Downsizer Contribution - eligibility

- Contract entered into on or after 1 July 2018
- Individual must be 65 or older at time of contribution
- Proceeds from the sale of a qualifying dwelling in Australia
- Main residence CGT exemption
- 10 year ownership
- Contribution made within 90 days of disposal of dwelling
- Complete approved form & provide to super fund at time of, or before, contribution made
- Available on a once only basis.

Downsizer Contribution

- No requirement to satisfy work test
- Deed must allow for contribution
- Tax free contribution
  - Excluded from being treated as a Non Concessional Contribution (NCC)
- Not subject to Total Super Balance (TSB) test
  - But will increase TSB for other purposes.

Centrelink Considerations

- Main residence is generally Asset Test Exempt (ATE) for pension purposes
- Proceeds from sale generally remain ATE for a period of up to 12 months
- Proceeds transferred to super will not be ATE.

Other Considerations

- No requirement to actually ‘downsize’ or even buy another house
- Are the proceeds required to extinguish existing debt or to fund new purchase?
- Consider taxable position of any income that may be derived from the proceeds
  - Individual MTR vs super fund (pension phase vs accumulation)
- Estate planning – Will vs Reversionary pensions/Death Benefit Nominations (DBN).

Timing of Downsizer Contribution

- Steve (66) sold main residence for $800K on 1/6/2019 (settlement date)
- Currently has about $1.4M in super and doesn’t expect it to change too much by 30 June
- Meets work test for the 2019 FY and maximised NCC for the year
- Will work again in the 2020 FY
- Wants to maximise tax free contributions for the 2019 & 2020 FY

Timing of Downsizer Contribution

Option 1 – Downsizer contribution in 2019 FY

- Estimated TSB at 30 June = $1.7M
  - $1.4M current balance + $300K Downsizer
  - Exceeds $1.6M TSB limit
- Unable to make further NCC in 2020 FY.

Timing of Downsizer Contribution

Option 2 – Downsizer contribution in 2020 FY

- Estimated TSB at 30 June 2019 = $1.4M
  - $1.4M current balance
  - Below $1.6M TSB limit
- Additional contributions in 2020 FY
  - Downsizer - $300K (within 90 days)
  - NCC - $100K (subject to work test).

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