Contribution changes

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But first….what you need to know

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Today’s Agenda……

Super Concepts

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

Abbreviations

- ATE – Asset Test Exempt
- CC – Concessional Contributions
- CGT – Capital Gains Tax
- CoR – Condition of Release
- FY – Financial Year
- NCC – Non Concessional Contribution
- SG – Super Guarantee
- SIS – Superannuation Industry (Supervision)
- TSB – Total Superannuation Balance.

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 per quarter ($235,680 per annum)
  - Super Guarantee 10%?
  - Low tax superannuation threshold to $225,000.

Contribution reserving

Contribution reserving

Super Concepts

- Contributions 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
- 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

Super Concepts

- 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 Tom's 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.

More information

SuperConcepts

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Indexation of contributions caps provides an increase in tax

Mar 9, 2021, 21:14 PM

By Nicholas Ali

From 1 July 2021 the concessional and non-concessional contribution caps are set to increase due to indexation.

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Indexation of contributions caps provides an increase in tax deduction

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
  - Offset large one-off income i.e. capital gain

- 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 **<u>used</u>**.

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

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Concessional contributions	$10,000	$10,000	$10,000	$10,000	$10,000	$100,000*
Available unused cap	$15,000	$15,000	$15,000	$17,500	$17,500	$0
Cumulative carried forward	$15,000	$30,000	$45,000	$62,500	$80,000	$7,500

$27,500 cap for 2023/24 + $72,500 unused cap from 2018/19 – 2022/23

Always use in order from earliest year to latest. $7,500 represents unused amount from 2022/23.

Bring forward non-concessional contributions

Non-concessional contribution caps

Super Concepts

Total super balance on 30 June 2020	NCC cap for the first year	Bring forward period
Less than $1.4m	$300,000	3 years
$1.4m to less than $1.5m	$200,000	2 years
$1.5m to less than $1.6m	$100,000	No bring forward available
$1.6m 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.

Non-concessional contribution caps

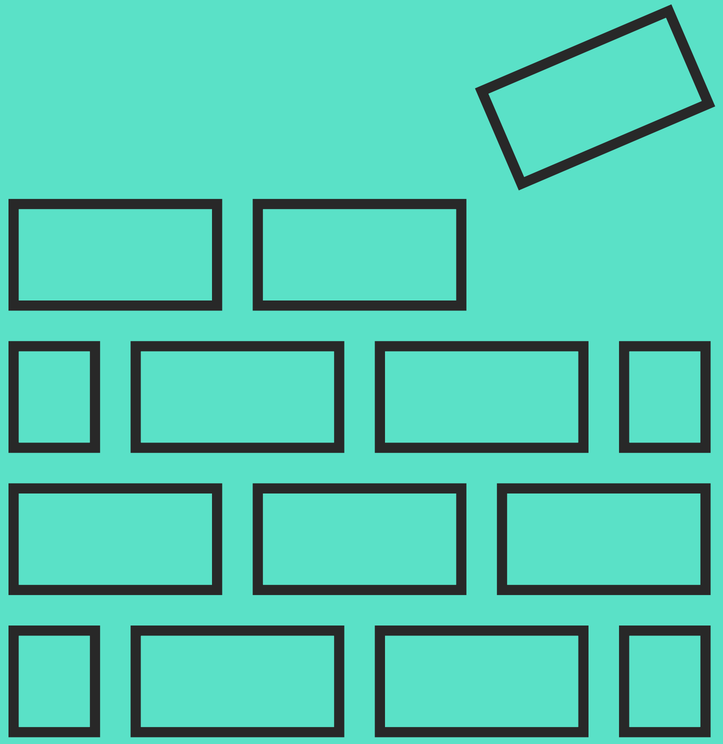
Total super balance on 30 June 2020	**NCC cap for the first year**	**Total super balance on 30 June 2021**	**NCC cap for the first year**	**Bring forward period**
Less than $1.4m	$300,000	**Less than $1.48m**	**$330,000**	3 years
$1.4m to less than $1.5m	$200,000	**$1.48m to less than $1.59m**	**$220,000**	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.

Post age 65 contribution strategies



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.

Work test

- Gainfully employed on at least a part time basis
- Minimum of 40 hours in a 30 consecutive day period
- Employed or self-employed for gain or reward in any business, trade, profession, vocation, calling, occupation or employment.

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?

- Melissa, will be turning 67 in late June 2020
- Has a total superannuation balance of $750,000
- What non-concessional contribution should be made in 2020/2021?
  - $100,000 or $300,000?

Recent retiree contributions

- Also know as the ‘Work test exemption’
- 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, plans to retire in June 2021 and will meet the work test for the year
- Expects to have a total superannuation balance of $250,000 at year end
- 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?
  - Make the contribution in 20/21 or make only 25k CC in 20/21 then 100k NCC and 27.5k CC in 21/22.

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

Super Concepts

- 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
- Not subject to Total Super Balance 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.

Timing of Downsizer Contribution

- Steve (66) recently signed a contract to sell his main residence for $800K
  - Settlement is on 1/6/2021
- Expects to have approximately $1.45M in super as at 30 June
- Has already contributed $100,000 NCC in this FY
- Wants to maximise tax free contributions for the 2021 & 2022 FY.

Timing of Downsizer Contribution

Super Concepts

Option 1 – Downsizer contribution in 2021 FY

- Estimated TSB at 30 June = $1.75M
  - $1.45M expected 30 June balance + $300K Downsizer
  - Exceeds increased $1.7M TSB limit
- Unable to make further NCC in 2022 FY.

Timing of Downsizer Contribution

Option 2 – Downsizer contribution in 2022 FY

- Downsizer - $300K (within 90 days of settlement)
- Estimated TSB at 30 June 2021 = $1.45M
  - Below increased $1.7M TSB limit
- Additional contributions in 2022 FY
  - NCC
    - – When does he turn 67?
    - – $0, $110K, $330K?

Thank you

Trustee question

- Division 293 - High income earner contribution tax
- Threshold: $250,000
    - Based on
        - Taxable income (i.e. after allowable deductions)
        - Reportable fringe benefits
        - Concessional contributions
        - Total net investment losses
  - Additional tax paid on the lesser of the Division 293 contributions and the amount above the threshold.