



Indexation – Getting it right

The implications for this financial year

But first... You need to know

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AGENDA

- Impact of Indexation on Contribution Caps
- Impact of Indexation on Total Superannuation Balance
- Impact of Indexation on Transfer Balance Caps
- Client Questions



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
 - But Small Business CGT retirement exemption cap remains at \$500,000

Contribution Cap Indexation

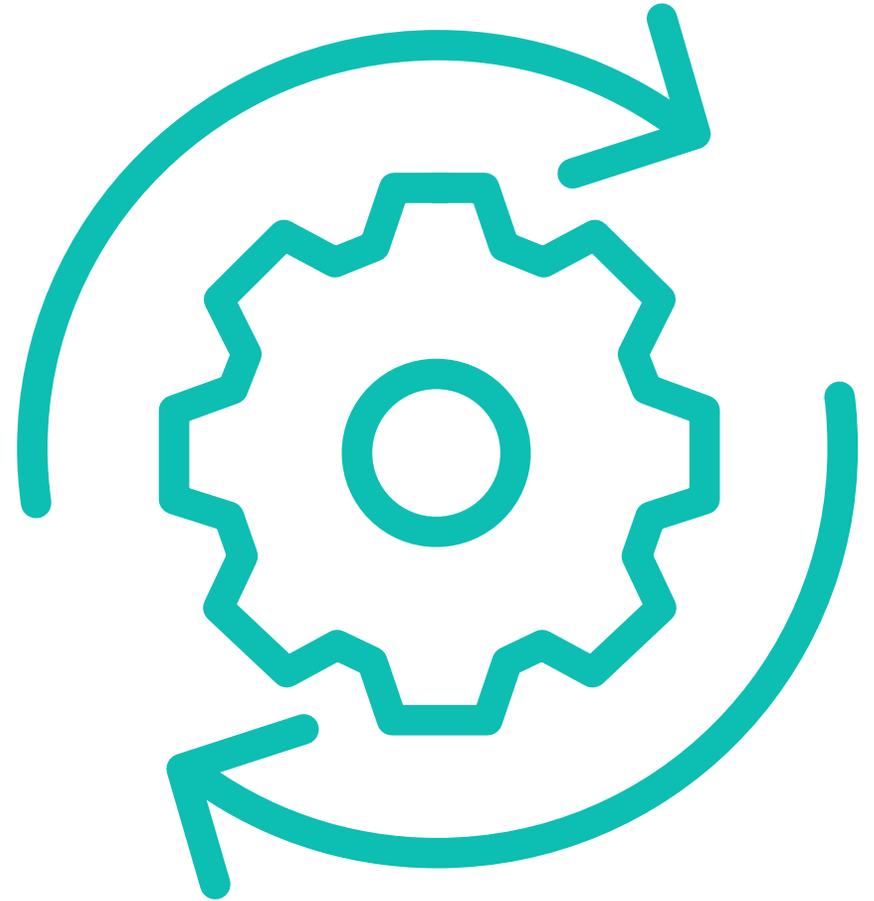
- Other superannuation thresholds will also rise from 1 July 2021 such as
 - Co-contribution range of \$41,112 to \$56,112
 - Maximum SG contribution base to \$58,920 pr quarter (\$235,680 per annum)
 - Low tax superannuation threshold to \$225,000

Impact of Indexation on Total Superannuation Balances



Total Superannuation Balance

- Total Superannuation Balance (TSB) is the aggregate value of an individual's superannuation entitlements measured at each 30 June
- This includes both pension and accumulation accounts
- If a pension is not an account-based pension, then a value is calculated based on the annual pension amount multiplied by a legislated factor
- The TSB is used in determining eligibility to a range of contribution rules



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 allows full access to bring forward - \$1.48 million up from to \$1.4 million
- Capacity for persons with between \$1.6 million & \$1.7 million to make NCC
- Maximum bring forward is set in year standard NCC is first exceeded
- E.g. if \$120,000 made in June 2021 maximum is set at \$300,000 until 30 June 2023



TSB Indexation

- The following TSB thresholds for contribution rules are **NOT** indexed
 - Carry forward unused concessional contributions limited to \$500,000 TSB
 - Recently retired contributions limited to \$300,000 TSB
- The TSB threshold for SMSFs to be able to use segregated asset method for tax calculation is limited to \$1.6 million TSB

Impact of Indexation on Transfer Balance Caps



Indexation of the Transfer Balance Cap (TBC)

- General transfer balance cap (TBC) was introduced on 1 July 2017 at \$1,600,000
- First time since introduced TBC is indexed by \$100,000 to \$1,700,000 from 1 July 2021
- Entitlement to indexation is proportional for anyone who has already commenced a pension based on highest proportion of TBC used
- If all the TBC was used prior to 1 July 2021 then no entitlement to indexation



Indexation of the Transfer Balance Cap (TBC)

- If Larry has not commenced a retirement phase pension prior to 1 July 2021 then his TBC is \$1,700,000
- If Harry commenced a retirement phase pension on 1 April 2020 with \$1,200,000 then on 1 July 2021 his TBC is \$1,625,000
- If Gary commenced a retirement phase pension on 1 April 2020 with \$1,200,000 and commuted \$100,000 from his pension on 1 December 2020 then on 1 July 2021 his TBC is \$1,625,000 even though his TBA is \$1,100,000

Client Questions



Making Further Contributions

Question

I am over age 78 and not working but do volunteer work. Can I make further contributions to my fund?

Answer

If you are over age 75 then generally the only contributions that can be made are superannuation guarantee contributions made by your employer.

There is an exception for downsizer contributions which may be permissible if you sell your family home.

Making Further Contributions

Question

If I have not breached the \$1.6million cap, can a retiree (aged 67) in pension mode put in non-concessional contributions up to \$300k without meeting the work test and will no exceed the indexed TBC? Does this \$300k go into pension or accumulation? Is 15% tax paid on earnings every year.

Answer

If you are over age 67 you generally need to meet the work test to make non-concessional contributions or satisfy the recent retiree rules as well as be under the \$1.7 million TSB unless it is a downsizer contribution.

Making Further Contributions

Answer

Whether a contribution can be subsequently turned into another pension will be based on your personal TBC which is determined at the time you initially started any pension and is subject to proportional indexation provided you have not used your TBC in full

If an amount cannot be converted to pension phase, then it is permitted to retain the amount in accumulation phase where the earnings on that portion of the member balances will be subject to tax at 15%

Transfer Balance Caps

Question

How much extra money can you put into your pension account over the \$1.6? Does the extra money get taxed as an accumulation account?

Answer

Your ability to make additional contributions if you have money in pension phase will be determined by your TSB and potentially the work test based on your age

Whether a contribution can be subsequently turned into another pension will be based on your personal TBC which is determined at the time you initially started any pension and is subject to proportional indexation provided you have not used your TBC in full

Transfer Balance Caps

Question

How does it work? I thought the pension limit was \$1.6 but have discovered that I have a transfer balance of over \$500,000 and can put more money in. I have put in \$140,000 from an Industry Pension Fund. I understand I can put in \$360,000 from my Industry accumulation fund. Is this correct?

Answer

You should use the ATO MyGov portal to ensure you know how much has been counted towards your personal TBC.

This will enable you to determine how much room you have available to commence additional pension benefits. It is important to note that the ATO information may not include all your SMSF pension information as this can be reported on either a quarterly or annual cycle

Lump Sums and Pension Accounts

Question

If I want to do a lump sum withdrawal, what are the steps I have to take BEFORE the payment and the timing of the steps? Must the yearly minimum pension be withdrawn before the lump sum withdrawal? And if I want to subsequently re-contribute what is the balance I look at?

Answer

If you wish to take a lump sum payment from a pension account, it is important to document that request from the member dated prior to the payment date as the default position is that all payments from a pension account are pension payments not lump sums. Additionally, the lump sum payments are required to be reported to the ATO for TBC purposes

Lump Sums and Pension Accounts

Answer

You can take lumps sums before you take the pension amounts but your need to ensure that you still meet the minimum pension level as failure to do so could result in loss of the fund's exemption on tax on earnings.

Your ability to return withdrawals as additional contributions when you have money in pension phase will determined by your TSB and potentially the work test based on your age.



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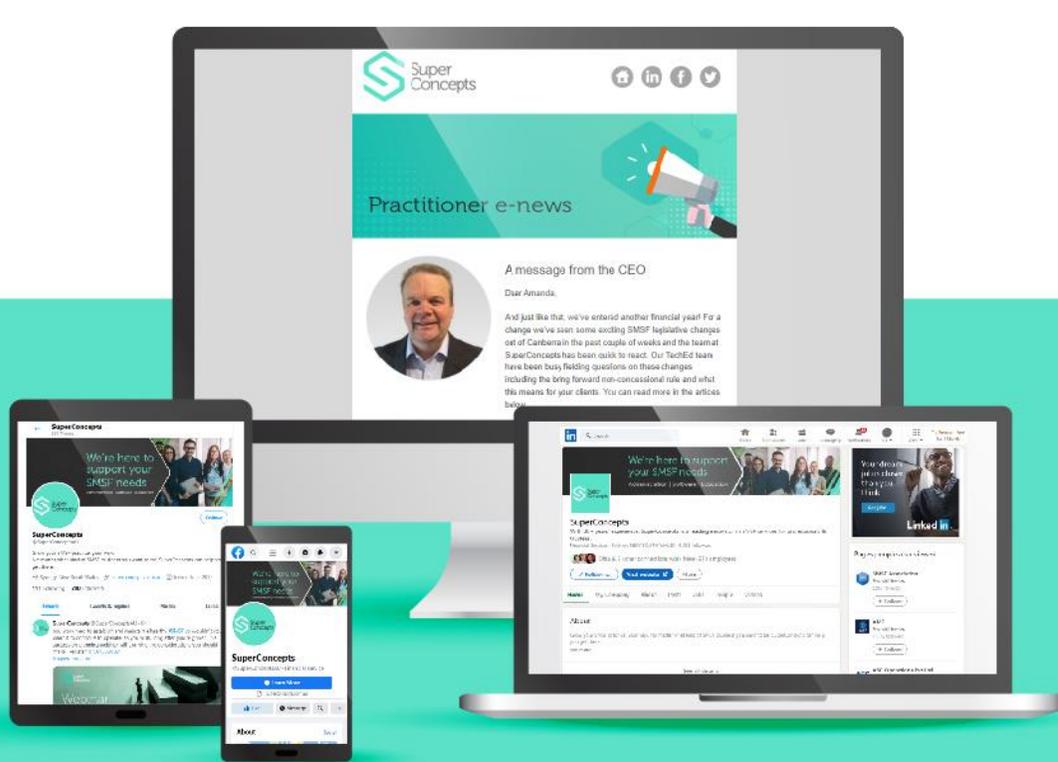
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