SUPERANNUATION

June 2021

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AGENDA

- Super contributions
  - Making personal contributions
  - Concessional contributions
  - Non-concessional contributions
  - Pre-30 June planning
- Super benefits
  - Conditions of release
  - Account-based pensions
  - Transition to retirement income streams
  - Importance of the Transfer Balance Cap

SUPER CONTRIBUTIONS

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Accumulation phase	Retirement phase
Pre-retirement - wealth creation	Income stream

MAKING PERSONAL CONTRIBUTIONS

Under age 67

ANYONE may contribute

Aged 67-74

Must meet the Work Test or Work Test Exemption

Aged 75+

Accumulation phase

Note: different rules apply to Downsizer Contributions

MAKING PERSONAL CONTRIBUTIONS

Work Test

- Individuals aged 67 to 74 **must** be gainfully employed – at least 40 hours within 30 consecutive days – during the year the contribution is made
- Must be satisfied **before** the contribution is made

Work Test Exemption (WTE)

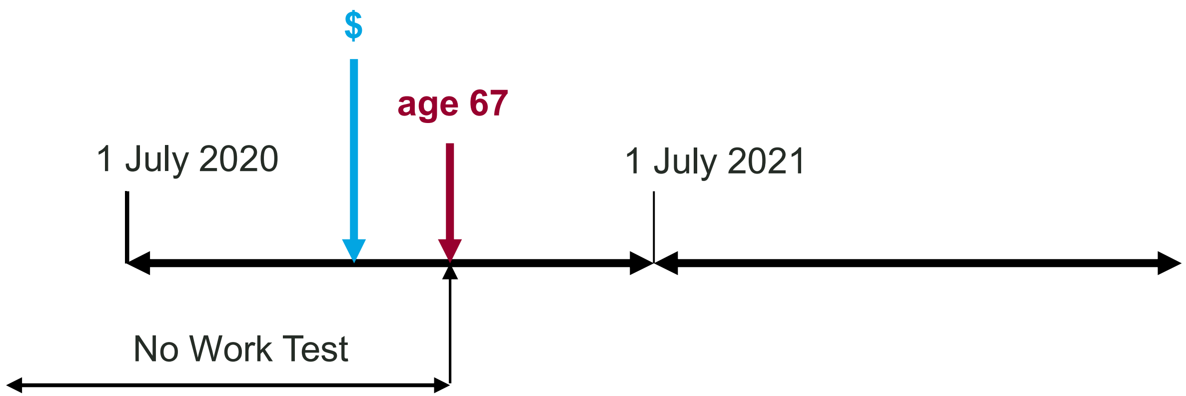
- Allows individuals aged 67 to 74 with a Total Super Balance (TSB) < **$300,000** at previous 30 June to make personal contributions if they met the Work Test in the previous year

Note: Federal Budget proposal to remove the Work Test for certain types of contributions

MAKING PERSONAL CONTRIBUTIONS

Work Test

- No Work Test applies where personal contributions are made prior to the member's 67th birthday

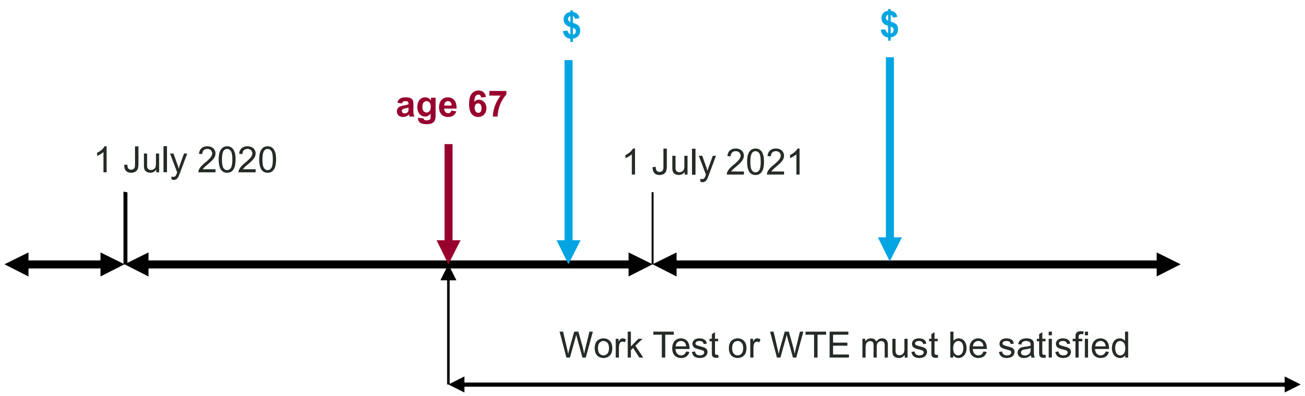


Note: Federal Budget proposal to remove the Work Test for certain types of contributions

MAKING PERSONAL CONTRIBUTIONS

Work Test

- The Work Test or WTE must be satisfied for any personal contributions made after the member's 67th birthday



Note: Federal Budget proposal to remove the Work Test for certain types of contributions

SUPER CONTRIBUTIONS

'Concessional' (pre-tax)

- Tax deduction
- 15%/30% contributions tax
- $25,000* pa (indexed)

Accumulation phase

'Non-concessional' (after-tax)

- NO tax deduction
- NO contributions tax
- $100,000* pa (indexed) subject to TSB

* These amounts will increase on 1 July 2021

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CONCESSIONAL CONTRIBUTIONS (CCs)

- Include employer contributions, personal deductible contributions, allocations from fund reserves (limited exceptions), contributions made on behalf of someone else (limited exceptions)
- Individuals aged 18 to 74 may claim a tax deduction for personal contributions if they meet certain criteria
- Additional 15% tax applies where personal income is $250,000 or more
  - Effectively taxed at 30%
- Contributions tax refunded for those earning up to $37,000
- Ability to carry-forward unused CCs

CONCESSIONAL CONTRIBUTIONS (CCs)

Carry-forward contributions

- Since 1 July 2018, individuals can carry-forward unused CCs cap amounts for up to 5 years
- Must have a TSB < **$500,000** at previous 30 June
- For example, John's employer makes CCs of $15,000 for the year-ending 30 June 2020. John can carry-forward $10,000 to the next financial year

	2019/2020	2020/2021
SG contributions	$15,000	$15,000
Personal deductible contributions	Nil	$20,000 ($10,000 + $10,000)
Total CCs	$15,000	$35,000
Unused cap amount	$10,000	

NON-CONCESSIONAL CONTRIBUTIONS (NCCs)

- Can only be made if TSB < **$1.6 million** (indexed) at previous 30 June
- Ability to 'bring-forward' 2 years depending on TSB
- Tax offset for contributions for eligible spouses earning up to $40,000
- Additional CGT cap ($1,565,000 in 2020/21; $1,615,000 in 2021/22) for eligible small business owners.

* The above figures apply for the 2020/21 financial year. New thresholds apply from 1 July 2021

NON-CONCESSIONAL CONTRIBUTIONS (NCCs)

NCC ‘bring-forward’ rule

- Triggered when NCCs for the financial year exceed the annual NCCs cap
- Up to 3 times the NCCs cap, i.e. 3 x $100K ($300K)
- Must be under age 65 at 1 July to access the bring-forward cap
- Must satisfy the $1.6 million TSB test on each 30 June during the bring-forward period.

TSB on 30 June 2020	Maximum NCCs	Bring-forward period
Less than $1.4 million	$300,000	3 years
$1.4 million to less than $1.5 million	$200,000	2 years
$1.5 million to less than $1.6 million	$100,000	No bring-forward period
$1.6 million	Nil	n/a

* The above figures apply for the 2020/21 financial year. New thresholds apply from 1 July 2021

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PRE-30 JUNE CONTRIBUTION PLANNING

Concessional contributions (CCs)

Where appropriate, consider:

1. Maximising CCs for the year by:
   - ‘topping up’ employer contributions by making personal deductible contributions
   - applying unused CCs cap amounts from previous years (‘carry-forward contributions’) where eligible
   - bring forward up to one year of the CCs cap into the current year

   Make the CCs cap is NOT exceeded
2. Splitting up to 85% of CCs from the previous financial year to an eligible spouse.

PRE-30 JUNE CONTRIBUTION PLANNING

Non-concessional contributions (NCCs)

Where appropriate, consider:

1. Maximising NCCs for the year depending on:
   - TSB on 30 June 2020 < $1.6 million
   - age, as it determines access to the bring-forward rule
   - whether the bring-forward rule has been triggered in the previous 2 financial years
2. Eligibility for a tax offset of up to $540 for making super contributions on behalf of a spouse
3. Eligibility to receive the Government co-contribution of up to $500

Make sure the NCCs cap is NOT exceeded

DOWNSIZER CONTRIBUTIONS

What makes Downsizer Contributions so special?

- Opportunity to maximise super
- The Work Test / WTE does not apply
- There is no upper age limit
- Not subject to the contribution caps
- Not subject to the $1.6 million TSB test
- Each member of a couple can contribute up to $300,000
- You don’t need to ‘downsize’ the home to qualify.

DOWNSIZER CONTRIBUTIONS

Contract of sale
Entered into on or after 1 July 2018

Age
Must be aged 65* or older at time of contribution

'Qualifying dwelling'
Contribution must arise from sale of a 'qualifying dwelling' owned for at least 10 years

Contribution amount
Amount of contribution is lesser of **sale proceeds** or **$300,000** (potentially $600,000 for a couple even if only one member is on title)

Legal ownership
Contribution must be made within 90 days of change of legal ownership

Trustee notification
Must notify the super fund trustee that the contribution is a 'Downsizer contribution' before or at the time the contribution is made

No personal tax deduction
Cannot claim a personal tax deduction for the contribution

One property
Contribution can only be made in respect of one property

* Federal Budget proposal to reduce the age to 60

DOWNSIZER CONTRIBUTIONS

For example:

- John (age 66) and Jenny (age 65) bought their 4 bedroom family home in 2003
- Now that the children have moved out, they want to sell the home and purchase a smaller property
- On 1 November 2020, they sell their home for $1.6 million
- They use part of the proceeds to purchase a smaller home for $1 million leaving $600,000 to invest
- John and Jenny could use all or part of the surplus to each make a Downsizer Contribution of up to $300,000.

Assumes John and Jenny satisfy all other requirements for making Downsizer Contributions

DOWNSIZER CONTRIBUTIONS

Issues to consider:

1. Potential tax and stamp duty considerations
2. Estate planning considerations
3. Other considerations include the potential impact on social security income support and eligibility for Commonwealth Seniors Health Card.

SUPER BENEFITS

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SUPERANNUATION BENEFITS

Preservation age

Date of birth	Preservation age (years)
Before 1 July 1960	**55**
1 July 1960 – 30 June 1961	**56**
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	**58**
1 July 1963 – 30 June 1964	**59**
After 30 June 1964	**60**

CONDITIONS OF RELEASE

- Retirement from preservation age
  - Cease employment and never again intend to be gainfully employed for 10 or more hours per week
- Deemed retirement from age 60 to 64
  - Cease a gainful employment arrangement
- Attaining preservation age – in the form of a non-commutable income stream
  - Commonly known as a ‘transition to retirement’ income stream
- Age 65
- Other conditions of release include death, permanent incapacity, severe financial hardship and more.

ACCOUNT-BASED PENSIONS

- Flexible
- Ability to access capital
- Earnings derived from assets supporting the income stream can be tax-free
- Minimum payment required unless the income stream commences on or after 1 June
- If the minimum payment is not made:
  - breach of payment standards
  - no earnings tax exemption for retirement phase income streams and
  - payments treated as lump sums for tax purposes
- Generally, no maximum payment requirement.

TRANSITION TO RETIREMENT INCOME STREAM (TRIS)

- Ability to draw an income stream after reaching preservation age without retiring
- Maximum annual pension amount each year is 10% of account balance
- Super fund's trust deed must permit TRIS
- Earnings on underlying assets taxed at a max 15% unless in 'retirement phase.'

TRANSITION TO RETIREMENT INCOME STREAM (TRIS)

For example:

- Individual age 64 commences a TRIS with $800,000 consisting wholly of preserved component:

Minimum pension payment is:

2%* x $800,000 = $16,000

Maximum pension payment is:

10% x $800,000 = $80,000

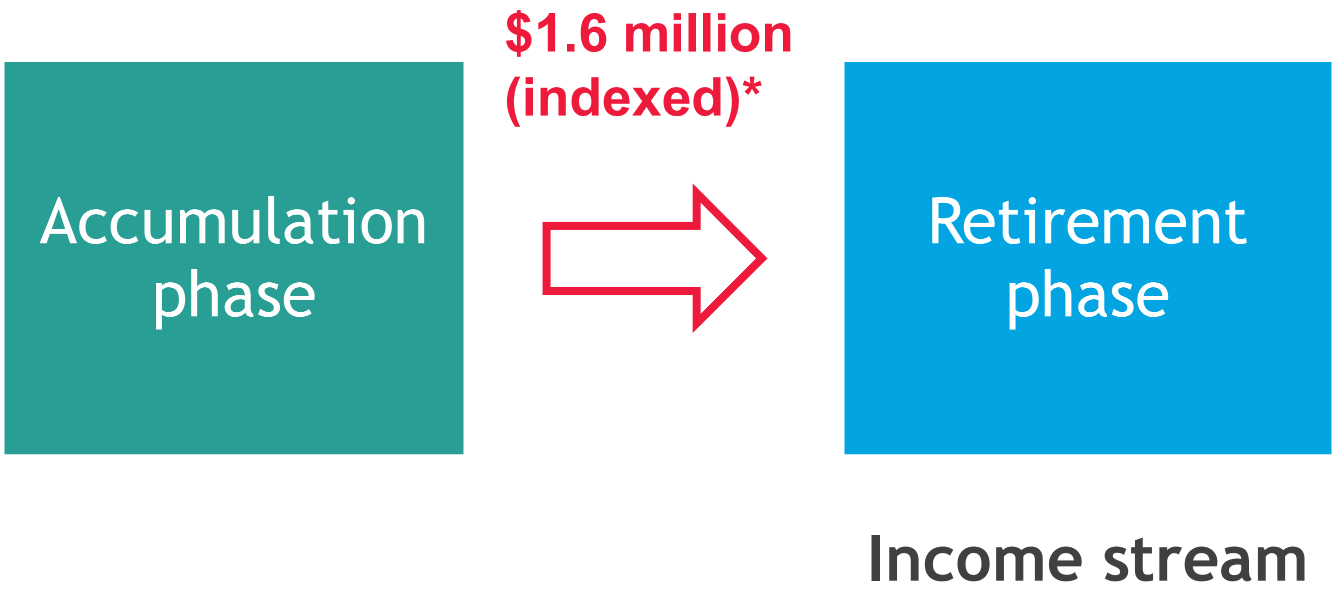
* Applies for the 2019/20, 2020/21 and 2021/22 financial years

TRANSITION TO RETIREMENT INCOME STREAM (TRIS)

Reasons for commencing a TRIS:

- Need more income to live on
- Reducing work hours and supplementing income with pension payments
- Boost retirement savings
- Reduce non-deductible debt.

IMPORTANCE OF THE TRANSFER BALANCE CAP (TBC)



* Applies for the 2020/21 financial year. The general TBC increases to $1.7 million from 1 July 2021

IMPORTANCE OF THE TRANSFER BALANCE CAP (TBC)

- The TBC is set in the 1st year a retirement phase income stream is commenced
- Each individual has a Transfer Balance Account with certain transactions creating a debit or credit to that account
  - an example of a **credit** is the amount used to commence a retirement phase income stream or the amount of a death benefit income stream
  - an example of a **debit** is a lump sum commutation
- Modified rules apply for capped defined benefit income streams and death benefit income streams payable to eligible children
- Indexation of the TBC
- Penalties apply for exceeding the TBC.

SUMMARY

- Concessional vs non-concessional contributions
- Talk to your adviser regarding contribution planning pre-30 June
- Account-based pensions provide a flexible income stream in retirement
- Need to understand how certain transactions impact the TBC
- Do **not** exceed the contribution caps or TBC.

QUESTIONS?

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