SUPERMATTERS

SUPERANNUATION STRATEGIES FOR YOU AND YOUR BUSINESS

AUTUMN 2021

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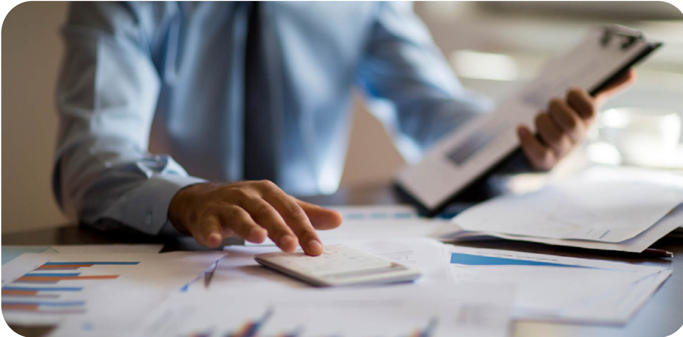

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BUSINESS & WEALTH ADVISORS

Changes to contribution and pension caps

In 2017, the Government decided to limit the amount individuals could contribute to their superannuation and the amount they could put into their pension account.

You were limited to putting $25,000 into superannuation where either you or your employer claimed a tax deduction or $100,000 where you did not claim a tax deduction. Further, a maximum of $1.6 million could be placed into a pension account.

It was always intended that these limits would increase in 10% jumps in line with inflation. Once the Consumer Price Index ('CPI') increased by 10% then all these limits would also increase by 10%. The increase in the CPI is the rate of inflation for Australia.

The CPI has now increased by 10% since 2017 and the government has announced an increase in all the above limits by 10%. So, from 1 July 2021 you will be able to contribute up to:

- $27,500 where either your employer or you (depending on who makes the contribution) will be able to claim a tax deduction for that contribution. These contributions are called Concessional Contributions.
- $110,000 in contributions that you do not claim a tax deduction for. These contributions are called Non-concessional Contributions.
- The limit to the amount you can contribute to a pension account has also been increased to $1.7 million however this increase only applies to people who have not yet placed any money into a pension.

There are other rules that also applied to the maximum amount that you can contribute to super. For example, if you have not contributed the maximum $25,000 over the past few years then you may be able to make a "catch-up contribution". These catch up contributions can be very handy in years that you have a big jump in income from things such as the capital gain on the sale of an investment property.

For non-concessional contributions, you may be able to bring forward your cap from the next two years and contribute three times as much this year. However, if you do this, you cannot make any more non concessional contributions over the next three years. People with more than $1.6 million are not allowed to make any non concessional contributions but this number will also change to $1.7 million on 1 July 2021.

There are complicated rules around the pension limits for people who have already started a pension before the start of July this year and if you are in that position, get in contact with your financial advisor to better understand how they may affect you.

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The Work Test

For many years, you had to be working in order to make a contribution to super. Eventually, the government recognised that this was causing a superannuation gender gap and changed the regulations so that any individual under the age of 65 could contribute to super. Whether they were working or not, or even if they were a child.

Recently the age restriction of 65 was increased to the age of 67 so that anyone under the age of 67 could contribute to super. But what about people over the age of 67?

Once you turn 67 and until you turn 75, you must have been gainfully employed for at least 40 hours within 30 consecutive days in a financial year before your super fund can accept any voluntary employer contributions and member contributions for you.

This is an annual test. This means once you meet this test you can make contributions for the entire financial year.

For 2019–20 and earlier financial years, this rule applied once you turned 65 years old and until you turned 75 years old.

Example:

During 2020–21, Kumiko works 20 hours per week for six months as a data analyst and earns $26,000 in salary and wages. She also turns 67 years old.

As Kumiko is 67 years old in 2020-21, she must satisfy the work test or meet the work test exemption criteria to be eligible to claim a deduction for any personal (after-tax) super contributions she makes after turning 67 years old.

Kumiko satisfies the work test because she was gainfully employed for at least 40 hours during a consecutive 30 day period in 2020–21.

Kumiko gave her fund a notice of intent to claim $2,000 as a deduction and received an acknowledgement of that notice. She meets all the other eligibility criteria and can claim a deduction for her personal super contributions of $2,000 in her 2020–21 tax return.

In 2020–21, Kumiko turns 66 years old. This year, she does not need to satisfy the work test or meet the work test exemption criteria to be able to claim a deduction for personal super contributions in her 2020-21 tax return. However, she must still give her fund a notice of intent and receive an acknowledgement of the notice.

Work Test Exemption

You will see in the example that we talked about a "work test exemption". Recently the law was changed to allow you to make a contribution to super, as a 67 to 74 year old, even if you don't meet the work test provided you met the work test last year and:

1. You have less than $300,000 in superannuation; and
2. You have not used the work test exemption previously

So in the above example, let's say Kumiko finished working in the 2020-21 year and her total balance of all her super funds was under $300,000. During the 2021-22 year Kumiko will again be able to contribute to her super fund.

There is also a different work test for children under the age of 18 years if they wish to claim a tax deduction for any contributions they make to superannuation. We will cover that work test in a separate article.

What is "Retirement"

If you wish to take money out of superannuation you need to meet what is known as a "Condition of Release". Recently you saw that many Australians met a condition of release under the Covid relief package.

Perhaps the most well known of all the conditions of release for getting access to your super is "Retirement" but under the law "Retirement" may not necessarily be what you think it is.

It is understandable that you may not want to continue working if you feel satisfied with the wealth you have accumulated.

Unfortunately, this is not sufficient to gain access to your super and you will have to wait until you are 58 (or even older for many of us) to get your super. However, you don't actually have to stop working completely to be considered "retired" for super purposes.

If you have already attained the age of 60 you merely have to cease a work arrangement and you will be considered to have retired under super laws. This could be as simple as changing jobs. Or you could have two jobs and you resign from one of them after you reach the age of 60.

This little known definition could provide many more people with access to their superannuation.

Super versus Home Loan

A common question asked of financial advisers is whether you should pay more money into super or pay it off your home loan. There is no "one size fits all" answer to this question and you would need to speak to your adviser to determine which path is better for you. But some things you need to consider before making a decision which way to go are:

- Will I get a tax deduction for my super contributions?
- Is my debt tax deductible?
- How long do I have to wait to get access to my super?
- Can I delay contributing and still get the same tax benefit?
- What rate of return will my super generate compared to my home loan?

Remember that your superannuation is an investment that has some risk (in that returns fluctuate) but provides tax advantages when you contribute. Your home loan is not really volatile and the return is the equivalent of the interest rate you are paying to the bank.

It is certainly worth having a chat to your adviser to make sure that you are directing your savings to the right place, whether that be super or a home loan.

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