Editorial

September 2021

Financial planning for the year ahead

There are key changes in the financial planning industry that came into effect on 1 July 2021. Your financial adviser is aware of these changes and can discuss them with you in relation to your own situation.

Non-concessional contribution cap and bring-forward

The age extension for the non-concessional contribution (NCC) bring-forward rule passed the Senate in June 2021. That means, from 1 July 2020, if you are aged 66 (or under) at the start of the financial year, and have a superannuation balance below the threshold, you may be able to use the bring-forward rule.

The tables below summarise the three-step process for checking your eligibility if you plan to use the non-concessional contribution cap.

Step 1. Can I make non-concessional contributions to super?	
If under age 67 at time of contributing	Yes
If age 67 to 74* at time of contributing and work test (or work test exemption) is satisfied	Yes
If age 67 to 74* at time of contributing and work test (or work test exemption) not satisfied	No

** Once you reach age 75, you can contribute on or before the 28th day of the following month. The work test requires at least 40 hours of gainful employment during a period not exceeding 30 days at some point in the financial year. The work test exemption requires that (1) the work test was satisfied last financial year, and (2) total super balance at 30 June prior is below $300,000, and (3) the work test exemption has not been used in a prior financial year.*

Step 2. What is the amount of the non-concessional contribution cap?	
If under age **67** at 1 July 2021	up to $330,000^
If age **67** or above at 1 July 2021	up to $110,000^

^ Check your total super balance in Step 3. You should also check if you are already in a bring-forward period.

Step 3. Is the total super balance below the relevant threshold?	
Total super balance at 30 June 2021	**NCC Cap 2021/22**
Less than $1.48m	$330,000
$1.48m to less than $1.59m	$220,000
$1.59m to less than $1.7m	$110,000
$1.7m+	Nil

Increased concessional contributions cap and removal of excess contribution charge
The standard concessional contributions cap of $25,000 increased to $27,500 on 1 July 2021. Your financial adviser can review your strategy and discuss if you should take advantage of the cap increase, based on your situation. Your adviser will also look at the impact of the increase in super guarantee to 10% in financial year 2021/22 which should be considered when calculating the amount you are going to contribute, to make sure you do not go over the contributions cap.

The Government also removed the excess concessional contributions charge from 1 July 2021. The charge is the interest penalty that applies on the increased tax payable due to the excess. The excess concessional contribution is still taxed at marginal rates with a 15% tax offset.

Catch-up concessional contribution measure permits a $102,500 maximum cap
The 2021/22 financial year is the third year you can use catch-up concessional contributions amounts if your total super balance is below $500,000 as at 30 June the previous financial year.

Your concessional contributions cap in the 2021/22 financial year is based on the current concessional contributions cap plus unused amounts from financial years 2018/19, 2019/20 and 2020/21. Although the measure allows for carrying forward unused amounts for up to five years, the earliest financial year available for the measure is the 2018/19. Any amounts unused for 2017/18 and earlier financial years are disregarded.

Total super balance thresholds to increase
The total super balance (TSB) is generally the total amount of super (both accumulation and pension phase) that you have as at 30 June of the previous financial year. For most individuals, this is the sum of super accumulation accounts, transition to retirement pensions, account-based pensions and term-allocated pensions. Your financial adviser can help determine your TSB.

The table below highlights the relevant TSB amount thresholds from 1 July 2021 which your financial adviser can discuss in detail with you, appropriate to your situation.

Super measure	TSB amount for 2020/21	New TSB amount for 2021/22
Non-concessional contributions	$1.4m, $1.5m, $1.6m	$1.48m, $1.59m, $1.7m
Government Co-contribution	$1.6m	$1.7m
Spouse contributions	$1.6m	$1.7m
Catch-up (or carry-forward) concessional contributions	$500,000	$500,000
Work test exemption	$300,000	$300,000
SMSFs ability to use segregated assets for pension income	$1.6m	$1.6m
SMSF event-based reporting	$1m	$1m

Single default superannuation fund

To try and simplify the superannuation system, as of 1 November 2021 when an employee starts a new job they will have employer super contributions directed to their existing super fund if one exists, unless they choose another fund.

Employers will obtain information about the employee's existing superannuation fund from the ATO, if it is not provided by the employee.

This legislative amendment should reduce the number of people accumulating multiple superannuation accounts every time they change jobs, which all incur fees. Of course, you can choose to have multiple super funds set up, but generally it is prudent to minimise the number of super funds you have.

If you know someone who is starting their first job and they need to select a super fund, you can direct them to your financial adviser, or the YourSuper website, to do a bit of research and see which fund may be most suited to them.

SMSFs membership increases to 6

From 1 July 2021, SMSFs can have a maximum of 6 members, an increase from the previous limit of 4. The legislative amendment aims to increase choice and flexibility for members.

If you have a large family this may present an opportunity to admit new members to your SMSF or establish a new fund with up to 6 members.

If you have a business partner this could present an opportunity for scaling up and diversifying your investments by admitting them into the fund and re-evaluating your investment strategy.

However, you should be aware that with additional members in your SMSF, there is likely to be additional administration and decision-making complexities and the estate planning needs of all members should also be considered. Your financial adviser can help you work through any impacts that admitting more members may have and discuss estate planning and death benefit nominations of members.

Super guarantee rises to 10%

Super guarantee (SG) is an obligation on employers to make sufficient contributions to super for their employees.

From 1 July 2021, the rate increased to 10% and increases by 0.5% points for each financial year thereafter. From 1 July 2025, the rate reaches 12% and remains at this level for subsequent financial years.

This increase will be treated differently by different employers – some will simply increase their employees' super payments with no impact on their salary, increasing the overall employment package. Others may increase the super contribution but reduce the after-tax income, meaning the total employment package remains the same but your regular pay is reduced slightly.

Financial year	SG rate (%)
2021/22	10
2022/23	10.5
2023/24	11
2024/25	11.5
2025/26 and later	12

Of course, whilst this is a positive change, the small incremental increases may not be enough to meet your retirement goals, so your financial adviser can discuss how to contribute more into superannuation, without going over contribution caps.

Halving of the pension drawdown minimum continues

If you are currently retired and have an account-based pension, transition to retirement pension or market-linked pension you may be aware that the reduced drawdown minimum is set to continue. These accounts have been reduced by 50% for 2021/22 financial year, the same reduction which applied for the 2019/20 and 2020/21 financial years.

Where an income stream commences part way through the financial year, a pro-rata minimum applies based on the reduced percentages.

The rates are shown below. If you are unsure what you are drawing down you can check with your financial adviser. If you don't need as much as you are drawing down, and you are drawing more than the revised minimum, you could reduce your drawdown payments and keep the extra in your account, which may preserve the longevity of your retirement funds.

Age	Standard minimum drawdown rate (%)	Rate reduced by 50% for 2021/22 (%)
Under 65	4	2
65 – 74	5	2.5
75 – 79	6	3
80 – 84	7	3.5
85 – 89	9	4.5
90 – 94	11	5.5
95 and older	14	7

General transfer balance cap increase and proportional indexation

The general transfer balance cap (TBC) of $1.6m increases to $1.7m from 1 July 2021. The new cap allows more superannuation interests to be rolled over to retirement phase income streams, but it is not without its complexities.

The $1.6m TBC will continue to apply to those who have used 100% of their TBC any time before 1 July 2021. The $1.7m TBC applies to those who have **not yet commenced** a retirement phase pension before 1 July 2021. If you have used a portion of the cap, you will receive the unused portion of the $100,000 increase.

Your financial adviser can explain this in more detail if it is relevant to you and your financial situation.

Speak to your financial adviser

If you have any questions about anything you have read in this article, or you would like your financial plan reviewed in relation to the changes, speak to your financial adviser – sooner rather than later!