FOUR BIG CHANGES COMING TO YOUR SUPERANNUATION

PRABHAT MEHLA
Financial Adviser
24/06/2021

For many of us, the family home is the most valuable asset we'll own – and with today's surging property market, it's not hard to see why it can be the foundation of your retirement nest egg. It's your super, however, that can make the big difference for your retirement lifestyle, with the opportunity to provide the steady income you need to achieve your retirement dreams.

Super - a very tax-effective investment

Generous tax concessions make super a very tax-effective investment that can be held, with tax benefits arising:

- when you contribute depending on type of contribution made
- when you earn money on your contributions, and
- when you withdraw money (especially after age 60).

For wealthy investors, contribution limits may perhaps mean that you're already taking full advantage of super. The good news is that changes coming next financial year could let you add more to your super – and hopefully also retire with more, too.

Changes coming to super

Here's an overview of the key changes coming to super from **1 July 2021:**

1. **Concessional contributions increase by 10% - from $25,000 to $27,500.** Concessional contributions are your pre-tax super contributions and income earnings are taxed at a maximum of just 15% within the fund. For many people this could be a significant discount to their marginal tax rate.
2. **The annual non-concessional (after-tax) contribution cap will also increase from $100,000 to $110,000.** Investment earnings are also taxed at just 15%, and capital gains at 10% (on assets held more than 12 months) during the accumulation phase and are tax-free if you've retired and taking a pension. Once again, this is likely to be lower than the current capital

gains tax (CGT) rate you pay on investment earnings – even after any 50% CGT discount is applied.

3. **The transfer balance cap will have an indexed increase from $1,600,000 to $1,700,000.** The transfer balance cap is the limit on how much you can hold in super when you transfer your superannuation savings into a retirement pension. Importantly you may only be entitled to some, or none, of this cap increase if you're already drawing a pension on your super.
4. **The long-awaited employer Superannuation Guarantee increases from 9.5% to 10% (on its way to 12% by 2025).** If you're employed on an 'including super' package, you may notice your take-home pay actually decreases slightly to compensate for the higher super contributions you receive.

What does this mean for you?

The increased caps for both concessional and non-concessional contributions are a great opportunity to boost your super in years leading up to retirement.

If you do add more to your super, it's important to carefully watch the limits. Making super contributions above the new limits may mean you receive a nasty tax bill. One of the benefits of receiving quality, tailored financial advice can be to help in avoiding this outcome.

Options to consider for your super

"If you do have extra money to invest, there could be strategies to maximise your contributions to super this financial year and next," says Prabhat Mehla, a Perpetual Private financial adviser based in Adelaide.

- **Concessional super contributions**
  You can make concessional (before tax) contributions of up to $25,000 this financial year and $27,500 next year – including any employer's contributions. For any personal super contributions, you may be able to claim a tax deduction if you meet certain criteria.

  "People should also remember that catch up contributions are possible, so if you didn't reach your $25,000 cap in recent years and your balance is below $500,000 you may be able to add even more into your super," says Prabhat.

- **Non-concessional contributions and the 'bring-forward' rule**
  If you are under age 67 you may be able to take advantage of the current non-concessional cap of $100,000 this financial year. Additionally if you are aged 67 or under as at 1 July 2021 you could use the three year bring-forward rule to add a further $330,000 on or after that date (assuming you hadn't used the bring-forward provisions in the previous two financial years and also had a total superannuation balance below $1.7 million as at 30 June 2021).

  "Keep in mind also that some trust deeds allow in-specie asset transfers, such as shares, to be transferred into super. Aside from the advantages of having wealth assets accumulated in the one vehicle in order to boost retirement savings, any capital gains that may be realised as a result of the transfer could potentially be used to offset any carry forward losses," says Prabhat.

- **Downsizer contribution**
  If you're over age 65 and ready to move from the family home, you may be able to add up to $300,000 each from the sale into your super – and it won't count towards your non-concessional contribution cap.

  "The good news is, the May Federal Budget has proposed reducing the age limit for downsizer contribution, meaning from 1 July 2022 those 60 and over may be able to use this contribution strategy," says Prabhat.

  "And for small business owners, in certain cases proceeds from the sale of small business assets may be CGT free if added to super," Prabhat added.

Your superannuation – like any of your investments – shouldn't be set and forget. With changes coming this July (and more proposed for next), there are more opportunities to put money into your super.

Finding the optimal contribution strategy can be tricky, however. Cap limits and even the order in which you make contributions can make a difference to your super balance.

Speak to your financial adviser or contact us to discuss how you can make the most of your super.

This article has been updated on 30th June 2021 to reflect the latest super legislation changes.