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END OF FINANCIAL YEAR (EOFY) CONSIDERATIONS FOR DOCTORS

PERPETUAL PRIVATE INSIGHTS

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With the end of financial year ('EOFY') fast approaching, Brad Gecelter, Partner at Priority Life sits down with Daniel Tome, Partner at Perpetual Private to discuss four core considerations for doctors who are thinking about their EOFY superannuation and tax options.

Top EOFY financial considerations for doctors:

1. TYPES OF SUPERANNUATION CONTRIBUTIONS THAT CAN BE MADE
2. CHECK ELIGIBILITY TO CONTRIBUTE TO SUPERANNUATION
3. COMPLETE ALL PAPERWORK WHERE YOU INTEND TO CLAIM A TAX DEDUCTION
4. COVID-19 RELIEF MEASURES AVAILABLE FOR SMSFS

As the 2017 superannuation reforms (and those subsequent) have meant that differing thresholds exist when seeking to make certain forms of superannuation contributions, we've included a brief discussion on a few of the various ways to make them.

While these changes have amplified the level of complexity in this area, we're here to work with you to navigate the contributions maze in order to produce the strategy that enables you to maximise the level of your wealth within superannuation.

Importantly, since the accompanying video above has been produced, changes to the upper age limit in which to make certain forms of contributions has been legislated. While this measure will commence from 1 July 2020, its nature could positively impact the amount of contributions you make this financial year.

As some forms of contribution can also be made tax-effectively over a period of time, making full use of these opportunities is an area to also bear in mind.

Lastly, we examine some recent changes introduced as part of the Federal Government's COVID-19 response package that may have relevance for medical professionals owning their rooms via their SMSF.

1. TYPES OF SUPERANNUATION CONTRIBUTIONS THAT CAN BE MADE

Concessional contributions

One form is known as 'concessional contributions' and these include:

- employer compulsory Superannuation Guarantee contributions and additional voluntary employer contributions, including salary sacrifice contributions

- ·other amounts paid by an employer to a super fund, such as insurance premiums, and
- personal contributions for which a tax deduction is claimed by the individual making the contribution.

Important note: the above list is not exhaustive. For doctors seeking to make concessional contributions to a defined benefit scheme, special care needs to be taken when determining the correct contributions strategy.

The maximum amount of concessional contributions that can be made on a concessionally taxed basis is limited to $25,000 per year. Exceeding this cap will have further taxation implications.

Catch-up concessional contributions

From 1 July 2018, any unused concessional contributions cap amount can be carried-forward on a rolling five-year basis provided that the individual's total superannuation balance across all superannuation funds held is less than $500,000. Note: in order to make catch-up concessional contributions, the usual age-based contributions rules still apply. These are touched on briefly later in this article.

The making of catch-up concessional contributions may be useful for medical professionals who have:

- made minimal superannuation contributions for themselves to date,
- returned from overseas assignments/roles which may mean they have very little (or even no) accrued superannuation, or
- received some form of windfall gain which is appropriate to be invested for the far longer term in a concessionally-taxed environment, and who have a minimal superannuation balance right now.

Non-concessional contributions

Non-concessional contributions are made on an after-tax basis, i.e. they include contributions made where a tax deduction is not claimed. Non-concessional contributions are not taxed within the fund and also form part of the tax-free component of a superannuation benefit.

Non-concessional contributions can only be made where an individual's total superannuation balance is less than $1.6 million. The maximum amount of non-concessional contributions that can be contributed is $100,000 per year (although other rules not discussed here may increase this amount). This cap applies to individuals up to their 75th birthday, however, individuals aged 65 or more must meet the work test or receive a work test exemption before they are eligible to contribute.

From 1 July 2020, the age from which the work test becomes applicable will increase to 67, which can provide extra contributions opportunities in certain circumstances.

2. CHECK ELIGIBILITY TO CONTRIBUTE TO SUPERANNUATION

What is the work test?

The work test is where an individual is gainfully employed for at least 40 hours over 30 consecutive days during the financial year. For some forms of concessional contributions and non-concessional contributions, this test must currently be met from age 65 onwards.

However, as mentioned earlier in this article, there's been a positive change to this upper age limit from 1 July 2020.

This change provides long-awaited relief for medical professionals seeking to maximise their ability to make superannuation contributions on an age-based basis. It also more correctly aligns contemporary working arrangements with the ability for you to make contributions best reflecting your desire to hold certain levels of capital within a concessionally-taxed savings vehicle.

Given the newness of these changes, seeking advice on the specific outcomes for you is especially important as it may mean any existing contributions strategy requires revision in order to maximise the amount invested within a superannuation environment.

'Downsizer' superannuation contributions

Downsizer contributions allow those 65 years or older to use the proceeds from the sale of one main residence to make superannuation contributions of up to $300,000 for an individual, or $600,00 for a couple.

Downsizer contributions are not concessional contributions nor non-concessional contributions - so making a downsizer contribution will not impact either of these caps. They can therefore be made regardless of the other contributions caps, including an individual's total superannuation balance. However, once they have been made, as a downsizer contribution will then add to the individual's total superannuation balance, this may impact the ability to make superannuation contributions in other forms.

In essence, the downsizer contribution rules allow you to make contributions where you wouldn't usually be able to, perhaps for age or work-test related reasons. But, getting the timing and order of the various contribution types you are able to make right is key to an effective superannuation contributions strategy.

Important note: there are some procedural requirements that must be met in order to appropriately make downsizer contributions. Also, the benefit of the downsizer contribution can only be received once during your lifetime.

3. COMPLETE ALL PAPERWORK WHERE YOU INTEND TO CLAIM A TAX DEDUCTION

Where you intend to claim a tax deduction on contributions made, you must have submitted a valid notice of intention to claim the deduction with the trustee of the relevant superannuation fund and received acknowledgement from the trustee of that notification.

Failure to submit the notice and receive acknowledgement from the trustee prior to commencing an income stream or rollover of the benefits will result in the loss of the ability to claim the tax deduction (or mean its only partially claimable), and possibly also result in other adverse taxation implications.

4. COVID-19 RELIEF MEASURES AVAILABLE FOR SMSFS

The COVID-19 relief measures applicable to self managed super funds (SMSFs) are wide-reaching, and are an area where it may be helpful to have an SMSF 'check-up' in order to determine whether these are relevant to your professional arrangements, and SMSFs circumstances.

This is because investment market volatility observed in recent months may mean your SMSF is inadvertently not meeting superannuation law requirements. A trustee/s or director/s of a corporate trustee are legally required to ensure these rules are met by the fund at all times within the relevant financial year.

Depending on circumstances, some areas possibly requiring re-visiting could be:

- Where loans have been previously made to, or investments made in, related parties of the SMSF

- Circumstances where your rooms are owned by your SMSF, they are leased to you (or a third party), and rent-relief due to loss of income following the COVID-19 pandemic is sought. Rental relief may be in the form of a reduction or even a waiver, and needs to be carefully documented to meet superannuation law as well as Australian Taxation Office requirements

- The SMSFs investment strategy - trustees of an SMSF must develop, implement, adhere to at all times, maintain and regularly review the fund's investment strategy. Given the investment market downturn, the percentage allocations to each investment or asset class may require revision. Additionally, the investment strategy must adequately contemplate aspects such as diversification and liquidity. These issues may have also been compromised as a result of recent market instability.

> FURTHER READING - COVID-19

Visit our COVID-19 Insights Hub for economic and market updates to keep you informed as the situation evolves.

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