PLANET WEALTH

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Newsletter - June 2022

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss “Super changes that could affect you from 1 July 2022” and provide you with information on “Tax-deductible super contributions” and “Your Super checklist EOFY”.

If you would like to discuss any of the issues raised in this newsletter, please don’t hesitate to contact us.
In the meantime we hope you enjoy the read.

All the best,
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Super changes that could affect you from 1 July 2022

A number of changes to the super system could create opportunities for Australians of all ages. Here's a rundown of what you need to know.

Last month, the Federal Government legislated a number of proposals that it previously put forward in its May 2021 Federal Budget. The changes announced will come into effect on 1 July 2022.

Here's a snapshot of what will change, with further details below.

- More people will be eligible for contributions from their employer, under the Superannuation Guarantee (SG), as the minimum income threshold of $450 per month will be removed.
- Work test requirements for those aged 67 to 75 will be softened and only apply to people who want to claim a tax deduction on voluntary super contributions they may be making.
- More people will be able to make up to three years' worth of non-concessional super contributions in the same financial year, with the cut-off age increasing from 67 to 75.
- More people will be eligible to make tax-free downsizer contributions to their super from the proceeds of the sale of their home, with the eligibility age reducing from 65 to 60.
- First home buyers, who meet certain criteria, will be able to withdraw an additional $20,000 in voluntary contributions from their super, to put toward a deposit on their first home.

How you could benefit from the changes

Compulsory (SG) contributions from your employer

Under the government's Superannuation Guarantee (or SG for short), you currently need to earn at least $450 per month to be eligible for compulsory super contributions from your employer. However, from 1 July 2022 that minimum income threshold will be removed.

This means that even where an eligible employee earns less than $450 in a calendar month, there is now an obligation on the employer to make contributions.

The work test

Currently, people aged 67 to 74 can only make voluntary contributions to their super if they've worked at least 40 hours over 30 consecutive days in the financial year, unless they meet an exemption.

From 1 July 2022, the work test will no longer apply to contributions you make under a salary sacrifice arrangement with your employer, or personal contributions that you don't claim a tax deduction for. The work test however will still need to be met if you wish to claim a tax deduction on personal contributions.

Under the new rules, the work test can be met in any period in the financial year of the contribution. This is different to the current rules, where the work test must be met prior to contributing.

Non-concessional super contributions

Currently, those under the age of 67 at the start of the financial year can make up to three years of non-concessional super contributions under bring-forward rules.

From 1 July 2022, the cut-off age will increase to 75.

The bring-forward rules allow you to make up to three years of non-concessional contributions in a single year if you're eligible. This means you could put in up to three times the annual cap of $110,000, meaning you could top up your super by $330,000 within the same financial year.

How much you can make as a non-concessional contribution will depend on your total super balance as at 30 June of the previous financial year.

Downsizer contributions

The age Australians can make tax-free contributions to their super from the proceeds of the sale of their home, which needs to be their main residence, will be reduced from 65 to 60. (Note, there is no upper age limit for downsizer contributions and no requirement to meet the work test.)

The maximum downsizer contribution amount of $300,000 per eligible person and other eligibility requirements remain unchanged.

For couples, both spouses can make the most of the downsizer contribution opportunity, which means up to $600,000 per couple can be contributed toward super.

The First Home Super Save Scheme (FHSSS)

The First Home Super Saver Scheme (FHSSS) aims to provide a tax-effective way for eligible first home buyers to save for part of a deposit on a home.

Under the scheme, you can withdraw voluntary contributions (plus associated earnings/less tax) from your super fund, with the current maximum withdrawal broadly $30,000 for each eligible individual.

From 1 July 2022, this withdrawal cap will increase to broadly $50,000 for each eligible individual.

Other important things to note about your super

- If you exceed concessional and non-concessional super contribution caps, additional tax and penalties may apply.
- The value of your investment in super can go up and down, so before making extra contributions, make sure you understand, and are comfortable with, any potential risks.
- The government sets general rules around when you can access your super, which typically won't be until you reach your preservation age (which will be between 55 and 60, depending on when you were born) and meet a condition of release, such as retirement.

There may be lots of things to consider when it comes to these superannuation changes, and it may affect what you choose to do this financial year. We're here to help

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Tax-deductible super contributions explained

Did you know, you may be able to claim a tax deduction on certain super contributions when you do your tax return?

Whether you're employed, self-employed, or in some instances even unemployed or retired, you may be able to claim a tax deduction on certain after-tax super contributions you've made.

These don't include compulsory SG contributions your employer might be required to make into your super fund under the super guarantee, nor does it include salary sacrifice contributions, which are additional contributions you may get your employer to make into your super fund out of your before-tax income.

How do I make a tax-deductible super contribution?

You can make an after-tax super contribution in a variety of different ways, such as using money from your regular bank account, savings, an inheritance, or from the proceeds of the sale of an asset.

You may then be able to claim a tax deduction on the amount of that contribution when you do your annual tax return.

What are some of the benefits of tax-deductible super contributions?

Putting money into super and claiming it as a tax deduction may be of particular benefit if you receive some extra income that you'd otherwise pay tax on at your personal income tax rate (as this is often higher).

Similarly, if you've sold an asset that you have to pay capital gains tax on, you may decide to contribute some or all of that money into super, so you can claim it as a tax deduction. This could reduce or even eliminate the capital gains tax that's owing altogether.

Meanwhile, there could be further tax benefits as investment earnings made inside the super environment may also benefit from an equivalent tax saving, which could make a difference when you do eventually withdraw your super savings and retire.

What do I need to do to claim a tax deduction on a super contribution?

Make an after-tax contribution to your super

The amount you choose to contribute is up to you but remember you can't contribute more than $27,500 per year under the new concessional contributions cap, unless you're eligible to make catch-up concessional contributions (more on this below).

If you exceed the yearly cap, extra tax may apply to the excess contributions.

Lodge a form with your super fund

You'll need to lodge a notice of intent form with your super fund, which your super fund will acknowledge in writing.

Also note, you shouldn't make any withdrawals, rollovers or start drawing a pension from your super before your notice of intent form has been lodged with and acknowledged by your super fund. Doing any of these may reduce or invalidate the tax deduction you're seeking.

Have the paperwork ready when you do your tax return

Once the financial year is over, you can prepare and lodge your tax return using the written acknowledgement from your super fund that confirms your intention to claim and the amount you can claim.

Remember, you normally have until 31 October to lodge your tax return for the previous financial year, but you may have more time if you use a registered tax agent.

Are there other things that I should keep in mind?

Your age. Anyone who's eligible to contribute to super can claim a tax deduction on their after-tax contributions but those aged 67 or over need to meet (or have the one-off exemption from) the work test before being able to make voluntary super contributions. Under the work test, you must've been gainfully employed during the financial year for at least 40 hours over a period of no more than 30 consecutive days.

Meanwhile, if you're under age 18, you can only claim a tax deduction on a super contribution if you've earned income as an employee or a business operator during the year.

Contribution limits

If you're claiming a tax deduction for an after-tax super contribution, the contribution will count toward your concessional contributions cap ($27,500 per year).

Note, you may be able to contribute more than this amount if you're eligible to use unused concessional contribution cap amounts from previous financial years.

It's also important to note that tax-deductible contributions are not the only contributions that count toward the concessional contributions cap. Other contributions that count towards this cap include:

- Compulsory SG contributions your employer pays under the super guarantee, including contributions from any other jobs you may have held in the same financial year
- Salary sacrifice contributions you may get your employer to make into your super fund out of your before-tax income.

Other contribution incentives

After-tax super contributions that you claim a tax deduction for will not be eligible for a super co-contribution from the government. Also note, downsizer contributions (which you can make if you're 65 or over) are not tax deductible.

When you can access super

It's important to know that the government sets general rules around when you can access your super. Generally, you won't be able to access this money until you've reached your preservation age (which will be between 55 and 60, depending on when you were born) and retire.

Super returns aren't guaranteed

The value of your investment in super can go up and down. Before making extra contributions, make sure you understand and are comfortable with any potential risks.

If you'd like to discuss making extra contributions to your superannuation, please don't hesitate to give us a call.

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Your super checklist for EOFY

The lead up to 30 June can be a good time to maximise tax benefits that may be available to you inside super.

If you're keen on taking advantage of potential tax benefits available inside super, the lead up to 30 June could be a good time to act.

Certain contributions, which we cover below, may have the ability to reduce your taxable income, or see you pay less on investment earnings.

There will be things to consider, including some new super rules which come into effect on 1 July 2022 , as these may affect what you choose to do this financial year.

Contributions that could create tax benefits

Tax-deductible super contributions

You may be able to claim a tax deduction on after-tax super contributions you've made, or make, before 30 June this year.

To claim a tax deduction on these contributions, you'll need to tell your super fund by filling out a 'notice of intent' form. You'll generally need to lodge this notice and have the lodgement acknowledged by your fund, before you file a tax return for the year you made the contributions.

Putting money into super and claiming it as a tax deduction may be of particular benefit if you receive some extra income that you'd otherwise pay tax on at your personal income tax rate (as this is often higher).

Similarly, if you've sold an asset that you have to pay capital gains tax on, you may decide to contribute some or all of that money into super, so you can claim it as a tax deduction. This could reduce or at least offset the capital gains tax that's owing.

Government co-contributions

If you're a low to middle-income earner and have made (or decide to make before 1 July 2022) an after-tax contribution to your super account, which you don't claim a tax deduction for, you might be eligible for a government co contribution of up to $500.

If your total income is equal to or less than $41,112 in the 2021/22 financial year and you make after-tax contributions of $1,000 to your super fund, you'll receive the maximum co-contribution of $500.

If your total income is between $41,112 and $56,112 in the 2021/22 financial year, your maximum entitlement will reduce progressively as your income rises.

If your income is equal to or greater than the higher income threshold $56,112 in the 2021/22 financial year, you won't receive any co-contribution.

Also, you'll generally need to have at least 10% of your assessable income coming from employment/business sources to qualify.

Spouse contributions

If you're earning more than your partner and would like to top up their retirement savings, or vice versa, you may want to think about making spouse contributions.

If eligible, you can generally make a contribution to your spouse's super and claim an 18% tax offset on up to $3,000 through your tax return.

To be eligible for the maximum tax offset, which works out to be $540, you need to contribute a minimum of $3,000 and your partner's annual income needs to be $37,000 or less.

If their income exceeds $37,000, you're still eligible for a partial offset. However, once their income reaches $40,000, you'll no longer be eligible for the offset, but can still make contributions on their behalf.

Salary sacrifice contributions

Salary sacrifice is where you choose to have some of your before-tax income paid into your super by your employer on top of what they might pay you under the superannuation guarantee.

Salary sacrifice contributions (like tax-deductible contributions) are a type of concessional contribution and these are usually taxed at 15% (or 30% if your total income exceeds $250,000), which for most, means you'll generally pay less tax on your super contributions than you do on your income.

If you're in a financial position to set up a salary sacrifice arrangement, you may want to do this before the start of the new financial year, so talk to your employer or payroll division to have the arrangement documented.

Important things to consider

- Contributions need to be received by your super fund on time (ie, before 30 June) if you're planning on claiming a tax deduction or obtaining other government concessions on certain contributions when you do your tax return.
- There are limits on how much you can contribute. If you exceed super contribution caps, additional tax and penalties may apply. Read more about super contribution types, limits and benefits.
- Currently, if you're aged 67 to 75 and wanting to make voluntary contributions, a work test applies unless you meet an exemption. Changes to the work test are coming more on this below.
- The government sets general rules around when you can access your super, which typically won't be until you reach your preservation age and meet a condition of release, such as retirement.

Super changes take effect on 1 July 2022

Super rule changes, which come into effect on 1 July 2022, may impact your decision making this financial year. The changes you may want to be across include:

- More people will be eligible for contributions from their employer, under the Superannuation Guarantee (SG), as the minimum income threshold of $450 per month will be removed.
- Work test requirements for those aged 67 to 75 will be softened and only apply to people who want to claim a tax deduction on voluntary super contributions they may be making.
- More people will be able to make up to three years' worth of non-concessional super contributions in the same financial year, with the cut-off age increasing from 67 to 75.
- More people will be eligible to make tax-free downsizer contributions to their super from the proceeds of the sale of their home, with the eligibility age reducing from 65 to 60.
- First home buyers, who meet certain criteria, will be able to withdraw an additional $20,000 in voluntary contributions from their super, to put toward a deposit on their first home.

Super rules can be quite complex, but we can help so speak to us about what may be right for you.

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