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Newsletter - May 2021

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 contribution caps are going up from 1st July 2021” and provide you with information on “Investing on behalf of your kids” and “Your Super checklist for 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 contribution caps are going up from 1 July 2021

The amount of money you can contribute into your super each year is about to increase.

The caps on concessional and non-concessional super contributions will increase from 1 July this year, meaning you may be able to put more money into super.

Below we explain how the new caps differ to the old ones and what these changes could mean for you.

What are the new caps?

If you're making contributions to your super, there are limits on the amount of concessional and non-concessional contributions you can make each year.

Below you can compare the current contribution caps with the contribution caps that will apply from 1 July 2021.

Your age	Current cap	Cap from 1 July 2021
	Concessional	
All	$25,000 a year Plus, unused cap amounts accrued since 1 July 2018 if you're eligible*	$27,500 a year Plus, unused cap amounts accrued since 1 July 2018 if you're eligible*
	Non-Concessional	
Under 65***	$100,000 a year Alternatively up to three years of annual caps ($300,000) under bring-froward rules if you're eligible**	$100,000 a year Alternatively up to three years of annual caps ($330,000) under bring-froward rules if you're eligible**
	Non-Concessional	
65 or over***	$100,000 a year**	$110,000 a year**

* This broadly applies to people whose total super balance was less than $500,000 on 30 June of the previous financial year.

** How much you can make as a non-concessional contribution depends on your total super balance as at 30 June of the previous financial year. More on this below.

*** Age determined as at 1 July of the financial year the contribution is made

What's the difference?

Concessional contributions include:

- **Compulsory contributions** – these are the before-tax contributions your employer is required to make into your super fund under the Superannuation Guarantee scheme, if you're eligible.
- **Salary sacrifice contributions** – these are additional contributions you can get your employer to make into your super fund out of your before-tax income if you choose to.
- **Tax-deductible contributions** – these are voluntary contributions you can make using after-tax dollars (such as when you transfer funds from your bank account into your super), which you then claim a tax deduction for. These can be made by both self-employed people and employees.

Concessional contributions are usually taxed at 15% (or 30% if your total income exceeds $250,000). This will typically result in an overall tax saving when compared to the tax rates most people pay on their personal income.

Non-concessional contributions include:

- **Personal after-tax contributions** – these are contributions you put into your super fund using after-tax dollars, which you don't claim a tax deduction for. Some reasons why you might choose to make non-concessional contributions, include if you've reached your concessional contributions cap, if you've received an inheritance, or if you're after a **government co-contribution** into your super fund.

Will there be any changes to the total super balance cap?

Currently, if you have a total super balance of $1.6 million or more, as at 30 June of the previous financial year, you can't make additional non-concessional contributions to your super, or you may be penalised. While non-concessional contributions can't be made once you reach this limit, concessional contributions can be.

Meanwhile, from 1 July 2021, this cap will increase from $1.6 million to $1.7 million.

How does the total super balance cap affect bring-forward rules?

Your total super balance may also impact your ability to contribute up to three years of non-concessional contributions under the bring-forward rules.

Currently, your total super balance must be below $1.4 million, as at 30 June of the previous financial year, for you to be able to contribute up to three years of annual caps ($300,000) under the bring-forward rules.

From 1 July 2021, that figure will change, and your total super balance will need to be below $1.48 million, as at 30 June of the previous financial year, to contribute up to three years of annual caps ($330,000) under bring forward rules.

As your total super balance rises above this level, your ability to bring forward future year caps may be reduced, or no longer available at all, meaning only the standard cap may be available.

What other things should I know?

- If you exceed super contribution caps, additional tax and penalties may apply.
- If you're 67 or over when a super contribution is made, you'll need to have met the work test or be eligible to use the recent retiree **work test** exemption.
- If you're 65 or over, you can make an after-tax **downsizer contribution** to your super of up to $300,000, using the proceeds from the sale of your home (if it's your main residence), regardless of your work status, super balance, or contributions history.
- 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.

Superannuation rules can be quite complex, so speak to us about what might be right for you.

In the meantime, remember 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 risk you might be taking on.

Investing on behalf of your kids

Investing on behalf of your children can help give them a financial leg up and introduce them to good financial practice at an early age.

However It's important to pick the right vehicle. Tax, social security and the appropriate structure will all affect your decision.

Whether it's birthday cash from proud grandparents, a slice of an inheritance, or you just want to set them up with something in their own name, many parents want to invest on behalf of their children.

The first thing to consider is why you want to invest. There's a plethora of products you could select, so think about which goals you're aiming to achieve. Setting something up to fund year-on year educational expenses might be quite different from a fund to establish a deposit on a first home, where the aim is a lump sum.

Once you're clear about your aims, it pays to bear in mind the effects of taxation.

Minors and tax

In Australia, children under 18 on the last day of the financial year (30 June) are considered minors as far as tax is concerned. Minors are generally taxed at penalty rates on unearned income such as interest, rent and dividends.

Minor penalty tax rates (2018-19)

Uneared income	Tax payable[1,2]
$0 - $416	Nil
$417 - $1,307	68% of excess over $416
Over $1,307	47% of the total income that is not excepted income

[1]Different tax rates apply to non-resident minors
[2]Medicare levy may also apply
Source: ATO

There are exceptions for certain children working full-time, with disabilities or who are entitled to a double orphan pension.

Further, the above minor penalty tax rates don't apply to amounts of excepted income received by children – these amounts will be taxed at adult rates. Excepted income includes income from employment, their own business, or from a deceased person's estate.

In whose name?

The most common approaches are to hold the investment in the child's name, or in the parent or grandparent's name, with them as a trustee. Whichever you choose, it helps to think upfront who will be liable for any tax and what the social security impacts might be.

For tax purposes, the ATO determines who has control of the assets, and therefore who pays tax on the income earned.

If the money to set up the investment is given without any conditions, such as pocket money, or earned and used by the child and no-one else, then income, and any capital gain or loss, is assessable to the child. It's the same if the investment is held under an informal trust agreement and the ATO is satisfied that the money belongs to the child. This applies in most cases where the money is a genuine gift.

However, if the money for the investment is provided by the parent and the parent uses the money as if it were their own, then they should declare the income on their return.

Note that children are not exempt from quoting a tax file number (TFN) and can apply for one at any age. Whichever investment vehicle you choose, make sure you supply the right TFN, if one is required.

Investment vehicles

These are some of the popular options parents turn to.

Bank accounts

Opening a bank account is usually the most straightforward. This doesn't require the child to sign a legal document and so can be registered with your child's name. However, if they are under 16, the bank will often require parental permission.

Managed funds

Managed funds and share investments generally require legal capacity, which doesn't apply to under-18s. Therefore, these are usually registered in an adult's name. The fund manager or share registry may allow for a name that reflects the intention, ie John Smith in trust for the late Jane Smith.

Insurance bonds

An insurance bond is a type of life insurance policy, with a range of investment options. It may be withdrawn in part or full at any time, although there may be tax implications. It can be established in the child's name for those aged 10 to 16 with parental consent. Anyone over 16 can invest without consent.

For children under 16, insurance bonds generally also offer a 'child advancement option', where a parent or grandparent invests on behalf of the child, with ownership passing at a nominated 'vesting' age. This might tie in with making funds available for education, home deposit or travel and so on.

Superannuation

Although it may seem odd for an under-18 more into skateboards, it's never too early to think about super.

Children can become members of a super fund, if the rules of the fund allow this. Generally, a parent or guardian needs to sign the application form and there are additional considerations if the child will be a member of a self-managed super fund (SMSF).

Because of its concessional tax treatment, super is a popular savings vehicle. However, depending on your purpose for setting up the investment, it may not be right for your child as they may not be able to access their funds until their own grandchildren have skateboards.

Social security

Where a parent or other adult holds investments on behalf of a child, Centrelink typically treats these as protective trusts. As a result, assets will most likely be attributed to the adults, up until they transfer to the child.

It's important to evaluate the pros and cons to get the right approach for your family. These can be complex, so please contact us to discuss the best way to set up an investment vehicle that meets your needs.

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, or are looking at ways to rebuild your retirement savings (for instance, you may have made a withdrawal as part of the early release of super scheme), the lead up to 30 June could be a good time to act.

Certain contributions, which we explore below, may have the ability to reduce your taxable income, or see you pay less on investment earnings, but remember there will be things to consider.

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 filing out a notice of intent. 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 even eliminate the capital gains tax that's owing altogether.

Government co-contributions

If you're a low to middle-income earner and have made (or decide to make before 1 July 2021) an after-tax contribution to your super fund, 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 $39,837 in the 2020/21 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 $39,837 and $54,837 in the 2020/21 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 $54,837 in the 2020/21 financial year, you will not receive any co-contribution.

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 fund 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, 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, this needs to be organised before the start of the new financial year, so talk to your employer or payroll division and have the arrangement documented before 30 June.

Important things to consider

- There are limits on how much you can contribute. If you exceed super contribution caps, additional tax and penalties may apply.
- Contributions need to be received by your super fund on time (i.e. 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.
- A total super balance cap of $1.6 million is currently in place when it comes to making non-concessional contributions. From 1 July 2021 that cap will increase to $1.7 million. If your total super balance exceeds this cap, you will not be able to make non-concessional contributions and may not qualify for certain other government concessions.
- A work test applies if you're over age 67 and wanting to make voluntary contributions – unless you're eligible to use the recent retiree work test exemption.
- There's a limit on how much super you can transfer into a pension and upcoming changes could impact whether you move super savings now or later.
- 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.

Superannuation rules can be quite complex, so make sure you speak to us about what might be right for you.

Before making extra contributions, make sure you understand and are comfortable with any potential risk you might be taking on.