September 2021

Welcome to the Spring 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 how salary sacrificing into Super works, explain how the Super bring-forward rules now apply to more people and share with you 6 steps to help you feel more positive about your finances.

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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Salary sacrificing into super – how it works

Salary sacrificing into super involves reducing your take-home pay to put more money away for your retirement. See what you need to know.

Salary sacrificing into super is where you choose to have some of your before-tax income paid into your super account by your employer. This is on top of what your employer might pay you under the super guarantee, which is no less than 10% of your earnings, if you're eligible.

Making salary sacrifice contributions does involve a reduction in your take-home pay, but it also means you could increase your retirement savings while also potentially reducing what you payin tax. If you're thinking about setting up a salary sacrifice arrangement, here are some things to consider.

What can I contribute?

You decide how much you want to contribute (as long as you don't exceed super cap limits) and whether it's a one-off payment, or something you can afford to do regularly.

How much I can contribute?

You can't contribute more than $27,500 per year under the concessional super contributions cap or penalties will apply. It's also important to note that contributions made into your super as part of a salary sacrifice arrangement are not the only contributions that count toward this cap.

Other contributions that count toward your concessional contributions cap typically include:

- Compulsory contributions your employer pays under the super guarantee, including contributions from any other jobs you may have held in the same financial year.
- Contributions you make using after-tax dollars which you choose to claim a tax deduction for.

What are the potential tax benefits?

If you choose to reduce your before-tax income by salary sacrificing into super, a potential benefit is you may be able to reduce what you pay in income tax for the financial year.

That's because contributions made via a salary sacrifice arrangement are only taxed at 15% if you earn under $250,000 a year, or 30% if you earn $250,000 or more a year, with most people generally paying more tax on their income than they do on salary sacrifice contributions.

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

How do I set up a salary sacrifice arrangement?

If salary sacrificing into super is right for you, here's a quick checklist for how you could set this up.

Make sure your employer offers salary sacrifice

You will need to confirm with your payroll team at work that your employer offers this type of arrangement. If not, you may be able to achieve broadly the same benefits by claiming a tax deduction on contributions you may choose to make using after-tax dollars, but you'll need to consider whether this is right for you.

Decide how much you want to salary sacrifice, how often and when

You might want to salary sacrifice on an ongoing basis, or as a one-off. Also, you can't salary sacrifice income that you've already received, such as a bonus or leave entitlements, so you'll need to act well before this money is paid into your regular bank account if you want to salary sacrifice it.

Notify your employer and get any agreement in writing

If you can salary sacrifice (and you know how much, how often and when you want to do it), contact your payroll team at work to find out what information they need. Ask them to confirm in writing when your contributions will start being paid, so you can check that the contributions are being received into your super account.

Make sure you don't exceed the concessional contributions cap

If you do exceed the cap, additional tax and penalties may apply. Remember, the cap applies to all concessional contributions, whether they're made into one or more super accounts.

It's also worth noting that in addition to your annual cap, you may also be able to contribute unused cap amounts accrued since 1 July 2018, if you're eligible. This broadly applies to people whose total super balance was less than $500,000 on 30 June of the previous financial year.

Everyone's different, so if you're thinking about setting up a salary sacrifice arrangement, consider your circumstances and whether it's the right thing for you.

Super bring-forward rules now apply to more people

More Australians can make up to three years' worth of non-concessional super contributions in the same financial year, with the government increasing the age limit from under 65 to under 67.

In recent weeks the government announced that Australians aged 65 and 66 (to be specific, under the age of 67 at the start of the tax year), would be able to make up to three years of non-concessional super contributions under bring-forward rules. Previously, bring-forward rules only applied to those under age 65.

Below we explain what non-concessional contributions are, where bring-forward rules come into it, why this could be good news for you and what other rules have changed for this age group in recent times.

What are non-concessional contributions?

Non-concessional contributions 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 don't claim a tax deduction for.

Currently, the annual non-concessional contributions cap is $110,000.

Apart from non-concessional contributions, there are also concessional contributions and limits to the amount of both types of contributions you can make each year.

What are the bring-forward rules?

The bring-forward rules apply to non-concessional contributions only.

These rules allow you to make up to three years of non-concessional contributions in a single income year, if you're eligible. This means you can put in up to three times the annual cap of $110,000, which means you may be able to top up your super by $330,000 within the same financial year.

However, 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. More on this below.

How could the bring-forward rules benefit me?

If you've reached your concessional contributions cap, received an inheritance, or have money from the sale of a large asset, non-concessional contributions may be a good way to top up your super.

However, contribution caps limit the amount you're able to put into super in a single year, which is where bring-forward rules may be helpful, as they could allow you to make a much larger non-concessional contribution, or more non-concessional contributions, than you'd otherwise be able to make in 12 months.

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

Your total super balance may 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 $1.48 million, as at 30 June of the previous financial year, for you to be able to contribute up to three years of annual caps ($330,000) under the bring-forward rules.

If 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 annual cap (or no cap at all) may be available.

See the table below to get an idea of what you may be able to contribute under the bring forward rules.

Your total super balance cap on previous 30 June	Your non-concessional contribution limit	Bring-forward period
Under $1.48 million	$330,000	Three years
$1.48 million - $1.59 million	$220,000	Two years
$1.59 million - $1.7 million	$110,000	One year/ standard annual cap
Equal to or above $1.7 million	$0	N/A

What other things should I be across?

If you exceed super contribution caps, additional tax and penalties may apply. The value of your investment in super can also go up and down, so before making extra contributions, make sure you understand, and are comfortable with, any potential risks.

If you have any questions about the changes to the super bring-forward rule, or any other recent changes, please contact us today.

6 steps to help you feel more positive about your finances

Managing your money doesn't have to be stressful. By breaking down your goals and establishing good habits you can work towards financial wellbeing.

With one in four Australians reporting more financial stress after COVID[i], it's no surprise many of us are concerned about the future. Between mounting bills, unexpected expenses and a lack of understanding around our needs in retirement, getting our savings on track and seeing the big picture can seem overwhelming.

It doesn't need to be. If you break things down into small, manageable actions, you can create a simple plan to take immediate positive steps towards a healthy financial future.

Assess your debts

Debt is a reality for many Australian households, whether it's a home loan, credit card, student loan, car finance or personal loan. It's not uncommon to lose track of how much you owe and how much interest you're paying as a result.

Understanding your debts can help you put a plan into action to pay them off sooner and in the optimal order, potentially saving you a lot of money. There are steps you can work through to manage what you owe and work out your priorities - such as making a list of all debts and their sums and categorising each as 'good' or 'bad'.

Plan how to pay your bills

Some 14% of Australians[ii] report they have been unable to pay one or more bills on time in recent months, a reality that may be compounded through winter as extra heating sees utilities skyrocket.

One way to manage irregular bill amounts and unexpected rate spikes is to consider bill smoothing, a process where you establish automated payments of a set (and known) amount to cover utilities over the course of a year.

Establish an emergency fund

Putting aside extra money for that rainy day sounds simple, but it's one that many Australians neglect – in fact, one in four[iii] of us believe we wouldn't be able to raise $2,000 in a week if we needed to do so in an emergency.

If you are that one in four, it's a good idea to set up an emergency fund as a separate account - it acts as a buffer from debt, helping you prepare for life's curve balls. Keeping it away from your day-to-day savings account means you're not tempted to dip into it for known, budgeted expenses such as rent or mortgage, groceries or school fees.

Look at your super

The government's Early Release Scheme in 2020 saw 3.5 million Australians[iv] take advantage of the ability to dip into their super early. For many, having access to these funds helped ease immediate financial stress. If you're not sure how to build this money back, you're not alone – 30% of those who accessed their fund report a lack of awareness of how to recover their balances[v].

A good first step is to calculate how much money you'll need in retirement – there are various online tools to help you do this – then you can consider some of the ways you could rebuild your super and work out which one suits your circumstances.

Work on a savings plan

Deciding to pay yourself first – say, 10% of your income – is one simple way to boost your savings and improve your financial future, making you contribute a set amount of money into a savings account before you manage other household expenses.

It's also a good idea to set up a separate savings account with a high interest rate. Then make sure that set amount of your salary, as well as any surplus in your day-to-day account, is automatically rolled over into your savings at the end of the month. Automating your accounts allows you to set and forget, so your nest egg will automatically grow every time money is deposited.

Think about any long-term financial goals

At what age do you want to be able to buy your first house? When do you want to retire? Do you know how much you need in your superannuation fund to retire comfortably? Many of us sweep these big questions under the carpet, but understanding them can help you prepare for your financial future.

Once you've mapped out your current financial position and established your long-term goals, you can use a range of online tools and calculators to help you get there.

You can also speak to us to help get your savings goals on track and make sure you head toward retirement with peace of mind.

i AMP (2020): Financial Wellness in the Australian Workplace (p13)

ii,iii AMP (2020): Financial Wellness in the Australian Workplace (p4)

iv APRA (Feb 2021): COVID-19 Early Release Scheme – Issue 36

v AMP (2020) Financial Wellness in the Australian Workplace (p24)