LOWE LIPPMANN TRAKMAN FINANCIAL SERVICES

June 2021

Welcome to the Winter 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 the new Super contributions caps from 1 July 2021, provide you with a Super checklist for EOFY and lastly explain how Insurance can help protect your loved ones.

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,
Advisers and Staff at Lowe Lippmann Trakman Financial Services

Lowe Lippmann Trakman Financial Services
Level 7, 616 St Kilda Road
Melbourne VIC 3004

PO Box 130
St Kilda Vic 3182
P 03 9525 3777
E info@lltfs.com.au
W www.lltfs.com.au

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.

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.

Protecting your loved ones

You're working hard to take care of your family now – so it makes sense that you've already put a financial safety net in place that will protect them if you're no longer able to provide for them in the same way, by taking out your current life insurance policy.

Insurance can make all the difference - it can help safeguard your loved ones from financial hardship if you become ill or injured, or if you pass away, giving you peace of mind that they'll always be looked after.

How it works

You pay a premium to your insurance provider on a regular basis – for example, fortnightly, monthly, or yearly. The amount of this premium payment depends on many factors including your age, health, level of cover and even the premium structure you choose.

If you become terminally ill or pass away, then your nominated beneficiaries will receive a lump sum benefit from your insurance policy. They can use this money in any way they need – such as covering funeral costs, paying off your mortgage and keeping up with living expenses.

If you're temporarily or permanently unable to work because of an illness, disability or injury, you may be able to claim on a lump sum benefit or ongoing financial support (depending on the type of cover). You can use this money to replace your lost income and cover any medical and rehabilitation expenses.

Types of cover

Different insurance policies offer different types of cover, which you might consider depending on your circumstances. Please check your current policy for the cover type that you currently hold. Here are the four main types of cover that may be available:

Death and terminal illness cover

Your beneficiaries can receive a lump sum benefit if you pass away or are diagnosed with a terminal illness.

Total and Permanent Disability (TPD) cover

You can receive a lump sum benefit if you become totally and permanent disabled and are unable to work.

Trauma cover

You can receive a lump sum benefit if you are diagnosed with a certain illness, as defined by the policy, such as cancer or a stroke.

Income Protection cover

You can receive financial support if you become temporarily unable to work due to injury or illness by replacing up to 75% of your income during this time.

How much is enough?

According to Rice Warner's 2017 report, Underinsurance in Australia, when it comes to life cover Australians are underinsured to the tune of almost $5 billion.[i]

We can help you calculate how much you and your family will need to maintain your current lifestyle, based on a range of factors including:

- your mortgage and other debts
- the income you currently provide
- funeral expenses and legal costs
- the ages of your partner or spouse and your children.

Because your circumstances change over time, it's a good idea to review your insurance regularly as well as when a major event occurs – for example, if you get married or start a family.

Talk to us if it's time for a review of your personal insurance needs.

i Rice Warner, Underinsurance in Australia, 2017.