inTouch

magazine | Q3 2021

Welcome to our quarterly magazine – in this edition:

- Financial planning for the year ahead
- Understanding the changes to granny flat arrangements
- 11 tax facts about superannuation
- Financial advice can make all the difference

Welcome to the Q3 edition of inTouch for 2021. This edition outlines planning tips for this current financial year, with lots of points raised that you can discuss with your financial adviser now, to stand you in good stead for the remainder of the financial year.

We also look at some recent changes to granny flat arrangements which may affect your family, or someone you know, and we dive into some key tax facts when it comes to superannuation.

Now it is more important than ever to contact your financial adviser who can provide tailored financial advice to you and help you plan for your future, when so many things in the economic and health environment we are living in may seem complicated. With sound advice, and careful planning, you can get peace of mind that your future is going to be bright.

I hope you enjoy this edition.

Peter Ornsby, CEO, RI Advice Group

Financial planning for the year ahead

There are key changes in the financial planning industry that came into effect on 1 July 2021. Your financial adviser is aware of these changes and can discuss them with you in relation to your own situation.

Non-concessional contribution cap and bring-forward

The age extension for the non-concessional contribution (NCC) bring-forward rule passed the Senate in June 2021. That means, from 1 July 2020, if you are aged 66 (or under) at the start of the financial year, and have a superannuation balance below the threshold, you may be able to use the bring-forward rule.

The tables below summarise the three-step process for checking your eligibility if you plan to use the non-concessional contribution cap.

Step 1: Can I make non-concessional contributions to super?

If **under age 67** at time of contributing	Yes
If **age 67 to 74*** at time of contributing and work test (or work test exemption) **is satisfied**	Yes
If **age 67 to 74*** at time of contributing and work test (or work test exemption) n**ot satisfied**	No

* Once you reach age 75, you can contribute on or before the 28th day of the following month. The work test requires at least 40 hours of gainful employment during a period not exceeding 30 days at some point in the financial year. The work test exemption requires that (1) the work test was satisfied last financial year, and (2) total super balance at 30 June prior is below $300,000, and (3) the work test exemption has not been used in a prior financial year.

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Step 2: What is the amount of the non-concessional contribution cap?

If **under age 67** at 1 July 2021	up to $330,000^
If age **67 or above** at 1 July 2021	up to $110,000^

^ Check your total super balance in Step 3. You should also check if you are already in a bring-forward period.

Step 3: Is the total super balance below the relevant threshold?

Total super balance at 30 June 2021	NCC Cap 2021/22
Less than $1.48m	$330,000
$1.48m to less than $1.59m	$220,000
$1.59m to less than $1.7m	$110,000
$1.7m +	Nil

Increased concessional contributions cap and removal of excess contribution charge

The standard concessional contributions cap of $25,000 increased to $27,500 on 1 July 2021. Your financial adviser can review your strategy and discuss if you should take advantage of the cap increase, based on your situation. Your adviser will also look at the impact of the increase in super guarantee to 10% in financial year 2021/22 which should be considered when calculating the amount you are going to contribute, to make sure you do not go over the contributions cap.

The Government also removed the excess concessional contributions charge from 1 July 2021. The charge is the interest penalty that applies on the increased tax payable due to the excess. The excess concessional contribution is still taxed at marginal rates with a 15% tax offset.

Catch-up concessional contribution measure permits a $102,500 maximum cap

The 2021/22 financial year is the third year you can use catch-up concessional contributions amounts if your total super balance is below $500,000 as at 30 June the previous financial year.

Your concessional contributions cap in the 2021/22 financial year is based on the current concessional contributions cap plus unused amounts from financial years 2018/19, 2019/20 and 2020/21. Although the measure allows for carrying forward unused amounts for up to five years, the earliest financial year available for the measure is the 2018/19. Any amounts unused for 2017/18 and earlier financial years are disregarded.

Total super balance thresholds to increase

The total super balance (TSB) is generally the total amount of super (both accumulation and pension phase) that you have as at 30 June of the previous financial year. For most individuals, this is the sum of super accumulation accounts, transition to retirement pensions, account-based pensions and term-allocated pensions. Your financial adviser can help determine your TSB.

The table below highlights the relevant TSB amount thresholds from 1 July 2021 which your financial adviser can discuss in detail with you, appropriate to your situation.

Super measure	TSB amount for 2020/21	New TSB amount for 2021/22
Non-concessional contributions	$1.4m $1.5m $1.6m	$1.48m $1.59m $1.7m
Government Co-contribution	$1.6m	$1.7m
Spouse contributions	$1.6m	$1.7m
Catch-up (or carry-forward) concessional contributions	$500,000	$500,000
Work test exemption	$300,000	$300,000
SMSFs ability to use segregated assets for pension income	$1.6m	$1.6m
SMSF event-based reporting	$1m	$1m

Single default superannuation fund

To try and simplify the superannuation system, as of 1 November 2021 when an employee starts a new job they will have employer super contributions directed to their existing super fund if one exists, unless they choose another fund.

Employers will obtain information about the employee's existing superannuation fund from the ATO, if it is not provided by the employee.

This legislative amendment should reduce the number of people accumulating multiple superannuation accounts every time they change jobs, which all incur fees. Of course, you can choose to have multiple super funds set up, but generally it is prudent to minimise the number of super funds you have.

If you know someone who is starting their first job and they need to select a super fund, you can direct them to your financial adviser to discuss options.

SMSFs membership increases to 6

From 1 July 2021, SMSFs can have a maximum of 6 members, an increase from the previous limit of 4. The legislative amendment aims to increase choice and flexibility for members.

If you have a large family this may present an opportunity to admit new members to your SMSF or establish a new fund with up to 6 members.

If you have a business partner this could present an opportunity for scaling up and diversifying your investments by admitting them into the fund and re-evaluating your investment strategy.

However, you should be aware that with additional members in your SMSF, there is likely to be additional administration and decision-making complexities and the estate planning needs of all members should also be considered. Your financial adviser can help you work through any impacts that admitting more members may have and discuss estate planning and death benefit nominations of members.

Super guarantee rises to 10%

Super guarantee (SG) is an obligation on employers to make sufficient contributions to super for their employees.

From 1 July 2021, the rate increased to 10% and increases by 0.5% points for each financial year thereafter. From 1 July 2025, the rate reaches 12% and remains at this level for subsequent financial years.

This increase will be treated differently by different employers – some will simply increase their employees' super payments with no impact on their salary, increasing the overall employment package. Others may increase the super contribution but reduce the after-tax income, meaning the total employment package remains the same but your regular pay is reduced slightly.

Financial year	SG rate (%)
2021/22	10
2022/23	10.5
2023/24	11
2024/25	11.5
2025/26 and later	12

Of course, whilst this is a positive change, the small incremental increases may not be enough to meet your retirement goals, so your financial adviser can discuss how to contribute more into superannuation, without going over contribution caps.

Halving of the pension drawdown minimum continues

If you are currently retired and have an account-based pension, transition to retirement pension or market-linked pension you may be aware that the reduced drawdown minimum is set to continue. These accounts have been reduced by 50% for 2021/22 financial year, the same reduction which applied for the 2019/20 and 2020/21 financial years.

Where an income stream commences part way through the financial year, a pro-rata minimum applies based on the reduced percentages.

The rates are shown below. If you are unsure what you are drawing down you can check with your financial adviser. If you don't need as much as you are drawing down, and you are drawing more than the revised minimum, you could reduce your drawdown payments and keep the extra in your account, which may preserve the longevity of your retirement funds.

Age	Standard minimum drawdown rate (%)	Rate reduced by 50% for 2021/22 (%)
Under 65	4	2
65 – 74	5	2.5
75 – 79	6	3
80 – 84	7	3.5
85 – 89	9	4.5
90 – 94	11	5.5
95 and older	14	7

General transfer balance cap increase and proportional indexation

The general transfer balance cap (TBC) of $1.6m increases to $1.7m from 1 July 2021. The new cap allows more superannuation interests to be rolled over to retirement phase income streams, but it is not without its complexities.

The $1.6m TBC will continue to apply to those who have used 100% of their TBC any time before 1 July 2021. The $1.7m TBC applies to those who have not yet commenced a retirement phase pension before 1 July 2021. If you have used a portion of the cap, you will receive the unused portion of the $100,000 increase.

Your financial adviser can explain this in more detail if it is relevant to you and your financial situation.

Speak to your financial adviser

If you have any questions about anything you have read in this article, or you would like your financial plan reviewed in relation to the changes, speak to your financial adviser – sooner rather than later!

Understanding changes to granny flat arrangements

On 1 July 2021, a new capital gains tax (CGT) exemption was introduced for certain granny flat arrangements, making it easier for older Australians to enter formal granny flat arrangements with the added protection from possible financial abuse if circumstances within the family change.

A granny flat arrangement does not refer to a granny flat structure in someone's backyard, rather it refers to arrangements where a significant amount of money and/or assets is given in exchange for a right to occupy a dwelling for life. The dwelling can be a room or self-contained dwelling located on someone else's property, however there are other types of accommodation which can meet the definition for tax or social security purposes. Your financial adviser can discuss the types of accommodation in more detail, in relation to your situation.

The benefit of a granny flat arrangement

Granny flat arrangement offers an alternative housing option to retirement villages, lifestyle parks or residential aged care by allowing older Australians to live on the same property as a family member who can assist them with day to day living and personal care needs. It may also be a financially more viable option as some aged care facilities and retirement villages have high entry or ongoing fees.

Many families like to be close to each other, and there can be a great many benefits to intergenerational living. A granny flat arrangement is ideal for this.

Understanding the new CGT exemption

The new CGT exemption (which provides that no CGT event happens) applies to the creation, variation, and termination of a granny flat interest if:

- an eligible individual (older person) is granted a granny flat interest by the grantor
- the grantor of the right owns the dwelling or agrees to acquire the dwelling in which the granny flat interest is or will be held
- the older person and the grantor of the right must both be parties to the arrangement
- the arrangement is in writing and indicates the intention of both parties to be legally bound by it
- the arrangement is not of a commercial nature.

For the CGT exemption to apply to a granny flat interest upon termination or surrender, the CGT exemption had needed to be applied when the granny flat interest was created or varied (on or after 1 July 2021).

Is the age pension affected?

Money or assets (or a combination of both) given for a granny flat interest may fall outside social security 'gifting' rules where certain conditions are met, which may mean the older Australian in the arrangement may retain or increase any age pension entitlements.

Tax implications

In the past, many families may have opted for informal granny flat arrangements to save time, expense and to avoid potentially significant tax consequences for the person granting the right ('grantor'), as the capital gain tax could be significant. The new CGT exemption removes some of the anxiety around the tax implications of having a formal arrangement in place.

Right to occupy

A granny flat interest requires that the older person be granted a lifetime right to occupy a dwelling. A dwelling could be accommodation in the grantor's family home, investment property or holiday home. A 'right to occupy' is distinguished from a life interest. A right to occupy provides the person with a right to live or reside in the property. A life interest may provide broader rights, for example, a right to 'use and occupy' a property, which may include rights to rents and profits from that property if the property was rented out.

For social security purposes a granny flat interest may include a right to accommodation for life in the residence or a life interest in the residence.

The older person who holds the granny flat interest

The older person who holds the granny flat interest is eligible if they are, either:

- age pension age or older; or
- have an on-going disability and is likely to require help with their daily activities for at least the next 12 months.

The grantor of the granny flat interest owns the dwelling or agrees to acquire the dwelling

The grantor of the right must own the dwelling (or agree to acquire the dwelling) in which the older person has or will be granted a right to occupy for life. The grantor of the right may be any person, though it is often a family member.

Involve all family members in the process

The new CGT exemption for granny flat arrangements offers protection for older Australians because it details the obligations on each of the parties in the arrangement, and it ensures the arrangement is legally binding.

For this reason it is important that an open discussion with all the parties and family members who are likely to be affected takes place, along with financial planning advice from your financial adviser, and legal advice from your lawyer or solicitor. This will get everyone on the same page and gives everyone the opportunity to ask questions and educate themselves on the situation, so the agreement is entered into with a complete understanding of the terms of the arrangement.

Formal, written arrangements must be in place, usually drafted by a lawyer or solicitor, and the arrangement must not be of a commercial nature.

Your solicitor can further explain the specific terms and both parties' rights and obligations under the arrangement.

Speak to your financial adviser

If you, or someone you know, wants to consider a granny flat living arrangement, it's sensible to have these conversations with your financial adviser and put something in place whilst all parties are of sound mind and have the capacity to sign the legal agreement.

We are open for business and would welcome the opportunity to have this conversation with you, or someone you know. Call us today.

IN TIMES LIKE THIS, YOUR FINANCIAL ADVISER IS WORKING FOR YOU

We continue to follow the advice from the Government and health officials to keep you, and us, safe.

However, we are still open for business and keeping an eye on the fluctuating markets for all our clients.

Stay safe, stay well, and remember we are here for you.

11 TAX FACTS ABOUT SUPERANNUATION

Accumulation phase
Retirement phase
Accumulation or retirement phase

01 Investment earnings in your super have a lower tax rate.

02 Concessional (pre-tax) contributions to your super have a lower tax rate.

03 Non-concessional (after-tax) contributions to your super isn't reduced by a contributions tax.

04 Insurance premiums can be claimed as a tax deduction and rebated to your super acount.

05 Voluntary contributions may be used as a deposit via the First Home Super Saver Scheme.

For more information on the important considerations for each tax fact, talk to a financial adviser.

06 CGT concessions if selling a small business.

07 Pension payments (TRIS) from your super are generally tax-free (60 or over).

08 Investment income and capital gains are generally tax-exempt.

09 Pension payments (account-based pension or TRIS from your super are generally tax-free (60 or over).

10 Death benefit lump sum paid to a nominated beneficiary is tax-free.

11 Lump sum withdrawals are generally tax-free (60 or over).

11 tax facts about superannuation

Compared to other investment structures, super is widely considered to be one of the most tax-effective investment structures available from a wealth accumulation and cash flow generation perspective. Although not a comprehensive list, below are 11 of the top tax facts about super.

Super investment structure

Overview

When investing via super, it's important to understand that there is an accumulation phase and a retirement phase. From a life stage perspective:

- Accumulation phase generally coincides with the time in your life where contributions are being made to your super, and you are accumulating wealth via these contributions and investment earnings. Nearing retirement, some of us may commence a transition to retirement income stream (TRIS).
- Retirement phase generally coincides with the time in your life where you are using the wealth you have accumulated to help fund your retirement lifestyle via either a retirement income stream, lump sum withdrawals, or a combination of both.

With the above in mind, from a tax perspective, the tax facts listed below are grouped according to their relevance to each phase. For example, the tax facts regarding contributions are underneath the title 'Super (accumulation phase)', as contributions can't be made to a super account in retirement phase.

Super (accumulation phase)

01 Investment earnings in your super. Investment income is generally subject to a maximum of 15% tax. And, capital gains on assets held for longer than 12 months receive a 1/3 (33%) tax discount, which effectively reduces the tax rate to 10%.

02 Concessional (pre-tax) contributions to your super. The amount contributed is reduced by a tax of 15% (contributions tax). When considering salary sacrifice and personal deductible contributions (types of concessional contributions), this tax of 15% may be lower than your marginal tax rate.

Please note:

a. If you have income and concessional contributions totalling more than $250,000, you can pay an additional 15% tax (called Division 293 tax) on some or all of your concessional contributions.

b. If you have adjusted taxable income of $37,000 or less, you may be eligible to receive the low-income super tax offset (up to $500).

c. Making concessional contributions to pay for premiums for certain insurance held through super can reduce contributions tax.

03 Non-concessional (after-tax) contributions to your super. The amount contributed isn't reduced by a contributions tax. Please note:

a. If you have total income less than $54,837, you may be eligible to receive the Government co-contribution (up to $500).

b. If you make a spouse contribution (i.e. non-concessional contribution to your spouse's super), you may be eligible to receive the spouse contribution tax offset (up to $540). The receiving spouse's income must be less than $40,000.

04 **Insurance in your super.** Your super fund trustee can generally claim the insurance premiums as a tax deduction, reducing the tax paid by your super fund trustee on your concessional contributions and super earnings. The tax saving is often rebated to your super account, effectively reducing the premium cost by 15%.

05 **Saving for a home deposit via your super.** If you make voluntary contributions, you may be eligible to withdraw all or part of these contributions plus associated earnings for use as a deposit via the First Home Super Saver Scheme.

Please note: The maximum amount that can be withdrawn is $15,000 of voluntary super contributions per financial year made since 1 July 2017 (up to a total of $30,000 across all years). The amount that can be withdrawn is 100% of eligible non-concessional contributions, 85% of eligible concessional contributions, plus 85% of associated earnings. Tax is payable on the associated earnings and concessional contributions portion of the withdrawal (taxed at marginal tax rates, including the Medicare Levy, less a 30% tax offset).

06 **Small business capital gains tax (CGT) concessions**. If you are considering selling a small business or the assets it uses, you may be eligible for CGT concessions that help reduce the taxable capital gain associated with the sale, and build your super retirement nest egg in the process.

Please note: You may be able to contribute amounts from the CGT 15-year asset exemption and retirement exemption to your super, without using your non-concessional contributions limits.

07 **Pension payments from your super.** Pension payments from an accumulation phase transition to retirement income stream (TRIS) are generally tax-free if you are aged 60 or over.

If you are under age 60, the taxable portion of pension payments is taxed at your marginal tax rate, less a 15% tax offset.

Super (retirement phase)

08 **Investment earnings in your super.** Investment income and capital gains are generally tax-exempt. Please note: The transfer balance cap, which is currently set at $1.6 million (indexed) per person, limits the amount of super benefits that can be transferred to retirement phase.

09 **Pension payments from your super.** Pension payments received from a retirement income stream (eg account-based pension or retirement phase TRIS) will be tax-free to you if you are aged 60 or over at the time of receiving the pension payment.

Super (accumulation or retirement phase)

10 **Lump sum withdrawals from your super.** Any lump sum withdrawals made after 60 years of age are generally tax-free. If you make a lump sum withdrawal and you are aged between preservation age and 60, the taxable component of the lump sum is taxed as follows:

a. The amount up to the low rate cap amount (currently $215,000) is tax-free.

b. The amount above the low rate cap amount is taxed at 15% (plus the Medicare Levy).

11 **Passing away and your super:**

a. A death benefit lump sum paid to a nominated beneficiary who is a tax dependant is received entirely tax-free. If the beneficiary is a tax non-dependant, then any tax-free component is tax-free, but the taxable component is taxed at 15% (taxed element) or 30% (untaxed element), plus the Medicare Levy.

b. Income payments from a reversionary death benefit income stream paid to a nominated reversionary beneficiary who is an eligible pension recipient dependant are received entirely tax-free if you or the reversionary beneficiary are aged 60 years or over at the time of your passing.

If both you and the reversionary beneficiary are under 60 at the time of your passing, the pension payments from the reversionary death benefit income stream are taxed as follows:

a. the tax-free component is tax-free, and

b. the taxable (taxed element) component is taxed at marginal tax rate plus Medicare Levy, less 15% tax offset.

However, when the reversionary beneficiary turns 60, the pension payments from the reversionary death benefit income stream are tax-free.

Talk to us

Each tax fact outlined above isn't covered in detail (only a brief snapshot is provided) and other important considerations go with each. For example, it's important to consider things such as contribution eligibility, and conditions of release. To discuss how any of the 11 tax facts about superannuation may be relevant to your situation, give us a call. We would love to hear from you!

Important information:

Information is correct as at 20 May 2021.

For references to tax stats and facts you can see an outline via: https://riadvice.financialknowledgecentre.com.au/kcstats.php

When it comes to your retirement, financial advice can make all the difference.

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If you're getting closer to retirement, the power of financial advice has been proven to help those with a goal achieve what they want. At RI Advice, we can provide you with professional advice for your financial planning needs. RI Advice is an integral part of your community and has been providing a friendly and family-oriented service since 1979.

Let us help you plan for your retirement. Call us today to arrange a meeting.

Source: IOOF Survey 2020: *The True Value of Advice – A study of 12,643 Australians*

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