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WEALTH & SUPER MATTERS

Superannuation strategies and your personal guide to wealth creation

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Why Too Many Super Contributions Could Mean Extra Tax For You

There are limits on how much you are able to contribute to your super fund each financial year, without having to pay extra tax. These limits are known as 'contribution caps'.

How much you can contribute to your super fund, and whether or not your fund is allowed to accept your contribution may also depend on your age and total overall super balance.

Contribution caps apply to all super funds. If you have more than one super fund, all of your contributions are added up and count towards your caps.

If you exceed these caps, you may need to pay extra tax. You can avoid this by understanding what your own contribution caps are, and what may apply to you.

Understanding The Types Of Contributions

There are two types of contributions you (or others) can make into your super fund:

- *Concessional* – These contributions come from income that has not yet been taxed. They are also called 'before tax' contributions. Once the concessional contributions are in your super fund, they are taxed at a rate of 15%. You may need to pay extra tax if you exceed the concessional contributions cap.
- *Non-concessional* – These contributions come from income that has already been taxed. They are also called 'after tax' contributions. These contributions are not taxed once they are received by your super fund. However, you may need to pay tax on them if you exceed your non-concessional contributions cap.

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Explaining The Income and Assets Tests

Since the time of Paul Keating, our governments have been focused on three foundational pillars for retirement savings in Australia. These pillars are:

1. *Compulsory Superannuation,*
2. *Voluntary Superannuation, and where super is not enough,*
3. *The Age Pension.*

The Age Pension has been around since the first decade of the 1900s and has (for the most part, since its implementation) kicked in from age 65 for a male and age 60 for a female. The age for a female to access the pension increased to age 65 quite some time ago, and more recently, the government started moving the age to access the aged pension from 65 to 67 for everyone.

This gradual increase is set out in the following table.

Period within which a person was born of change	Pension age	Date
From 1 July 1952 to 31 December 1953	65 years and 6 months	1 July 2017
From 1 January 1954 to 30 June 1955	66 years	1 July 2019
From 1 July 1955 to 31 December 1956	66 years and 6 months	1 July 2021
From 1 January 1957 onwards	67 years	1 July 2023

From July 2021 therefore, you will need to be 66 and a half years old to be eligible to ac-cess the Age Pension. In two years, that age will increase to 67.

The Age Pension is designed as a backup for those who do not have the resources to fund their own retirement. The way that the government assesses whether or not you are in need of the age pension is through the Income Test and the Assets Test.

The **Income Test** looks at how much income you earn, and if it is too much then your eligibility for accessing the Age Pension is reduced. As you earn more, it reduces to the point where you have no pension entitlement at all.

As an example, a married couple of Age Pension age who own their own home can earn up to $320 per fortnight and still receive the full Age Pension. If they were to earn over that $320 however, their combined pension would reduce by 50 cents for each dollar earned over the $320, as per the standard rules.

If you were single, you could earn up to $180 per fortnight without ramifications to your Age Pension, but for every dollar earned over that amount, incur a reduction of 50 cents per dollar.

The **Assets Test** looks at how much you are in possession of in certain assets. If that amount is over a certain threshold, it starts to reduce your access to the pension until the amount is zero. Using the same example as previously mentioned, a couple who own their own home can have up to $405,000 in assets before it starts to reduce their Age Pension.

When applying both the income and the assets tests, you use the result that gives you the lowest pension. This is why it is important to always plan ahead if you think you will need to be accessing the Age Pension, which is where we can come in to help.

Protecting Your Finances From The Unexpected

The financial climate of the future is an uncertain and unchanging one that you need to be prepared to face. With the impact of COVID-19 being felt by many businesses and individuals, you need to be ready for the worst-case scenario.

Ensuring that you are financially in a better position to face this uncertainty can be done by you, and potentially with assistance from the government.

A handy tip for ensuring that you are prepared for any eventuality you may be able to establish an emergency savings account. By depositing some money regularly into a high interest savings account you can prepare for any eventuality.

You could implement the 50/20/30 budget rule in this instance, whereby 50% of what you earn is spent on needs (ie. rent, bills, groceries, car/transport), 30% is spent on wants (ie. clothes, games, etc) and 20% to be saved or put towards debt repayment. In this case, you could dedicate some of the 20% towards your "for emergencies" fund to assist you with unexpected expenses.

If you find yourself in a situation where your emergency funds just won't stretch to cover the amount you require, you can also apply for a "payday loan", but this should be done with caution. Often they are riddled with terms and conditions that may make it difficult to pay back, and you should investigate and compare payday loans to find what might be suitable for you. You may also need to consider whether it is financially feasible for you to pay back the amount you require.

If you have for example been unable to or restricted from working during the current COVID-19 situation, you may be eligible for government assistance. The Australian government is currently providing individuals and businesses in affected areas with COVID-19 related relief support and assistance. If you are currently experiencing financial hardship as a result of the impact of COVID-19, there are a number of ways in which you can seek help. These could include:

- The **COVID-19 Disaster Relief Payment** (currently available for eligible individuals in NSW, Victoria & South Australia) - an emergency lump sum payment to help workers unable to earn an income due to a COVID-19 state public health order. This may involve a lockdown, hotspot or movement restrictions.
- The **Pandemic Leave Disaster Payment** (currently available across all states and territories for individuals) - support for individuals who are unable to leave their home for work as a result of self-isolating, currently have COVID-19, or who are caring for someone with COVID-19.
- State governments are also providing financial assistance to businesses who are experiencing a decline in turnover and are severely being impacted as a result of the current situation, with various relief packages and grants available to small, medium and large businesses.

For more information and eligibility requirements **Services Australia provides a comprehensive breakdown of conditions, eligibility and outcomes for financial assistance.**

If you are looking for more money management tips, you can speak with us for advice on your budget, finances and tax planning for the future. It's never too early to start.

Hiring Someone To Help Manage Your Money

There are some jobs that are DIY-able, and some that require the slightly more skilled touch of a professional. In many cases, investing your money isn't rocket science, and can be done by you.

However, there are some areas where DIY isn't a feasible option when it comes to your money, and might require a little bit of extra help (particularly when it comes to more technical jobs like high-risk investing, tax or superannuation). The stakes in those instances can be much higher. A mistake you make through DIY investing can cost you huge amounts of money.

If you seek the advice of a professional, you can go from an adequate amount of money in your investment to a potentially princely sum (with the right person managing your finances).

But how can you choose the right person for your situation? In many cases, it will depend on what you are looking to get out of it. There are many different ways in which a professional can assist you in looking after your finances.

- **Accountants** can assist you in tax planning, filing your tax returns correctly, give advice on investing, help set up trusts and inheritances or potentially assist you with your superannuation funds. There are numerous ways in which an accountant can help you as a business or as an individual - you only need to ask.
- **A Financial Planner** can give you big-picture advice about your finances, assist you in resolving financial issues and can help you create a plan that allows you to pay off debt, save or invest.

DIYing your finance management might be monetarily more acceptable to you when it comes to saving. But hiring a professional can be the difference between generating wealth, and simply managing it. Come speak with us if you'd like to learn more about options for your finances.

SMSFs Breaking The Rules - Penalties & Punishments

One of the main differences between owning a Self Managed Super Fund ('SMSF') and owning other entities is that your SMSF must appoint an auditor (at least 45 days before your first annual return is due), and then have the SMSFs accounts audited each year by the auditor.

Not only does the auditor have to audit the accounts but they must also ensure that the fund has complied with all the rules. If the auditor determines that the fund has not complied with the rules they must report that contravention to the ATO.

Usually, when the auditor finds a contravention of the rules, they will discuss this with the trustees and work out how to rectify the contravention. When the auditor notifies the contravention to the ATO, they will also usually notify how it was fixed. This will usually lead to no action being taken by the ATO.

But sometimes the trustees are not so willing to fix their contravention, and in these instances, the ATO can impose substantial penalties on the trustees who have to pay those penalties personally rather than through the assets of the fund.

Although contraventions are not common and only occur in around 2% of funds each year, there are common contraventions that can occur frequently. These include things such as the fund lending money to a member or a relative of a member, or members taking money out of the fund before they are entitled to.

In any of these instances, it is essential that the money is paid back, with interest, as soon as it is realised that the money wasn't to be taken. If you don't do so, the penalties will usually end up costing more than the money that was taken, which will result in losing more money altogether.

Aside from financial penalties, the ATO can also impose other penalties. These can include education orders where they direct you to do some free study about being the trustee of an SMSF.

If you are not willing to show the ATO that you are interested in fixing any contraventions or your contraventions are too prevalent, they have the ability to disqualify you from having an SMSF.

The biggest penalty that the ATO can impose is classifying your fund as non-complying. This will result in the whole fund being taxed at around 47%, and you will immediately lose close to half of your overall superannuation total.

This is why it is of paramount importance that you work together with your auditor and ensure that you fix any contraventions as soon as possible, once you are made aware of them.

New Rules In Place For SMSF Auditors

When an accountant does an audit there are rules that force the accountant to ensure that they are independent of the accounts they are auditing. Recently the rules were changed around independence for SMSF Auditors.

Traditionally, where an auditor and an accountant were part of the same network or accounting firm, they could only audit a fund that was part of the same network/firm whereby the auditor could demonstrate that they were still acting independently of the accountant.

But from the 1st July 2021, SMSF auditors are no longer able to audit a fund where the accounts have been prepared by either the same firm or network of firms.

This means that up to 300,000 SMSFs have had to appoint a new auditor this financial year.

This will also impact the trustees of those funds as they now have to formally engage a new auditor and then get used to the requirements of that new auditor.

Using Your Super For An Investment Property – Is It Worth It?

In 2007, the government changed the law to allow superannuation funds to borrow in order to buy assets. The most common asset that is generally bought with a loan is a property, and there are many super funds borrowing to buy properties. The question here is - is this a sensible move for you?

It depends on your circumstances. Borrowing to buy property is most certainly a suitable wealth creation strategy for many people, but it comes with risk, and that induces even more risk inside the superannuation environment.

On the positive side, you have access to gearing that should (over the long-term) provide you with a greater return on your investment. This is after all the reason that borrowing to buy assets occurs in the first place.

The downside however is that you have to be able to get a loan. At the moment, none of the four major banks will lend to a self-managed super fund to buy property. Other lenders will have severe restrictions on what they lend (such as only lending 70% of the value of the property).

Working out how to do it is a complicated process, so the advice of a licensed adviser should be sought. Their recommendation may be that you should only do it if you have a large super balance.

You will also need to be highly conscious of your cash flow requirements as well. In situations where you borrow money to buy a property, you will be required to contribute that money on an ongoing basis. As this is your superannuation that you may be looking to use, you need to be certain that you will be able to meet all of the cash flow requirements through super.

What if you need to fund a period of time with no tenants in your investment property? Will you be able to cover that.

With gearing, there is another risk to take into account before making a decision on whether or not to use your super when purchasing an investment property. Not only are your profits amplified, so are your losses. There have been instances where people have lost all their super because they have invested in the wrong asset. Upon the sale of that asset, they have had to use all of their super (and then some of their own money) to pay back the loan.

There is no doubt that borrowing to buy a property in your super fund is a great strategy but only for people with the right circumstances to do so. If you are looking for more information on this, come speak directly with us.

Case Study – How To Avoid Paying Additional Tax On Super

John is 84 years old and a widower with two adult children. John suffers a severe heart attack, is placed into intensive care and is given only days to live.

John has in his SMSF a property valued at $1 million. He and his former wife saved well throughout their lives, and had been told super was the best place to hold their assets.

As a result, it meant that they paid no tax throughout their retirement years. This was an ideal situation for the retirees.

After John passes, however, his super will have to go to either his estate or to one or both of his sons. Generally speaking, this would not create issues, but taxes will be incurred of at least $150,000 on the super.

What Can Be Done?

This is a frustrating issue to be dealing with at this precise moment for John and his loved ones, but it is an important one.

The property should be transferred out of the fund and into John's name personally, and immediately. This would mean that one (or both) of John's children have to have an enduring power of attorney over John.

This will involve taking urgent advice from John's accountant and solicitor, but dealing with the situation in a timely manner should save John's children $150,000 in tax.

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