Super changes you should know about

There are some important changes coming to superannuation and they could have a major impact on your personal finances.

1. Rising contribution rates

As of 1 July 2021, the employer super contribution rate will increase from 9.5% to 10%. The rate will rise again by 0.5% each year until it reaches a 12% contribution rate on 1 July 2025. While these super rate increases have generated a measure of political controversy, in our view it is unlikely they will be repealed.

2. Concessional versus non-concessional super contributions

Concessional contributions are taxed at a flat rate of 15% once they arrive in your super account.

A non-concessional contribution is 'after-tax' money put into super with no tax deduction claimed.

Types of concessional superannuation contributions include:
• compulsory employer contributions to employee super (superannuation guarantee contribution)
• employee salary sacrifice contributions to super
• personal contributions to super that are claimed as a tax deduction

3. Rising non-concessional contribution rates

The cap on non-concessional super contributions is also scheduled to rise by 10% from the current $100,000 per year limit to $110,000 per year.

A non-concessional contribution is extra money put into super after tax for which no deduction is claimed.

4. Increase to the non-concessional balance limit

The total superannuation balance limit for non-concessional contributions will increase through indexation on 1 July 2021 from $1.6 million to $1.7 million.

This means if the total worth of your super portfolio is less than $1.6 million ($1.7 after 1 July 2021), you can make non-concessional contributions to your fund. This increase in the ‘total superannuation balance limit’ will also increase eligibility for the spouse tax offset and the government co-contribution.

5. Bring forward more

Superannuation account holders under 65 years with a total balance of less than $1.7 million will be able to make three years’ worth of non-concessional contributions in a single year. With the non-concessional limit increasing to $110,000 per year, it will become possible to ‘bring forward’ up to $330,000 in non-concessional super contributions over a single year. In the case of couples, you can double that amount for a total of $660,000. Also, legislation currently before the Australian Parliament would increase that age limit to 67 years of age.

6. Carry forward unused super contribution caps

As of 1 July 2018, any concessional superannuation contribution caps that you haven’t utilised over the 18/19 and 19/20 financial years can be used to ‘catch up’ and be carried forward to your current year’s concessional super cap.

- This carry forward provision is restricted to superannuation balances of less than $500,000.
- The maximum contributions cap is currently $25,000 per year. This will increase to $27,500 from 1 July 2021.

Example:

Isabella has a total superannuation balance of $248,000. She’s made the following superannuation contributions over the past two years:

Contribution example		
Financial Year	Used Cap	Available ‘catch up’ amount
2018/2019	$15,000	$10,000
2019/2020	$20,000	$5,000

Therefore, in the 20/21 financial year, Isabella has available as a catch up superannuation contribution of:

- $10,000 catch up from 18/19
- $5,000 catch up from 19/20
- $25,000 available for the 20/21 financial year*

*Not including any unused cap for the 20/21 financial year.

7. Moving more into tax-free pensions

The 'transfer balance cap' that limits the amount of super you can transfer into the tax-free pension phase will increase on 1 July 2021 by $100,000 to a total of $1.7 million.

This increase won't apply to those who have already accessed the existing cap of $1.6 million. The new increased $1.7 million cap, however, will apply to anyone who hasn't yet drawn a pension from their super.

Anybody who has commenced drawing a pension from their superannuation, but hasn't accessed the full amount of the cap, will receive a proportional increase to their transfer balance cap.

Example:

- Jack began to draw a pension of $800,000 under the old limit of $1.6 million, leaving an unutilised amount – his remaining 'cap space' – of $800,000, equal to 50% of the transfer balance cap.
- Under the new limit, Jack's cap space would also grow proportionally – by 50% of the $100,000 increase – meaning that his new transfer balance cap would now rise to $850,000.

8. Defined benefit pensioners

Some defined benefit pensions qualify as capped defined benefit income streams. This framework limits the amount of tax-free income a pensioner can receive, and it may reduce the entitlement to the 10% offset on any untaxed element.

For these defined benefit pensioners, their income cap will rise on 1 July 2021 from $100,000 to $106,250. This may generate a small increase in pension payments as the amount of tax withheld by the defined benefit super fund is reduced.

9. The end of COVID-19 tax relief

In response to the COVID-19 pandemic, the minimum annual pension payment that account-based pension holders were obligated to take was cut by 50%. As of 1 July 2021, those payment levels will revert to pre-COVID-19 levels:

pre-COVID-19 levels:
• 4% of the account balance for those younger than 65 years
• 5% for those aged from 65 to 74
• 6% for those aged 75 to 79
• 7% if aged 80 to 84
• 9% if aged 85 to 89
• 11% if aged 90 to 94
• 14% if aged 95 or older

Examples:

- As a 76-year-old with a super balance of $500,000, Helen would be obligated to take pension payments of at least $30,000 per year.
- As a 91-year-old with a super balance of $300,000, Peter would be obligated to take pension payments of at least $33,000 per year.

-end-

Vanessa Smith BBus (Acc), CFP®, Adv Dip FS (FP), Cert IV FMB
Senior Consultant, Bongiorno Group

Anthony. S. Bongiorno BCom, DipFP, CFP®, FIPA, CTA, SSA™, Cert.IV FMB
Senior Director and Founding Partner, Bongiorno Group

For further information or to book an exclusive AMAV member complimentary meeting, please phone 03 9863 3111 or email amav@bongiorno.com.au