

Welcome to our first inaugural monthly newsletter on SMSF matters.

Each month we will share insights into superannuation, the government changes and keeping you informed.

Recent Superannuation Changes & Federal Budget

For the first time in living memory the recent October Federal Budget didn't make a single change that directly affected SMSFs. This doesn't mean that there haven't been some significant and beneficial changes announced or implemented in the last 12 months though.

Age 65 work test extension to 67

Superannuation rules require a member to satisfy the Work Test if they wish to make contributions beyond the age of 65. The work test involves being gainfully employed for a period of 40 hours or more over 30 days.

Up to age 65 there were no requirements to be working to make super contributions. You could be fully retired or living off investment income and still contribute to your super.

From 1 July 2020 this was extended to age 67 to more closely match with the steadily increasing Age Pension eligibility ages.

This has opened up the possibility for an additional 2 years of concessional (deductible) and non-concessional contributions for certain fund members who would otherwise be locked out of increasing their super balances.

Age 70 spouse contribution extension to 75

An uncommonly used concession that provides a tax offset of up to \$540 for contributions made on behalf of a spouse. The offset is subject to a maximum gross income of \$40,000 for the spouse and the work test would also apply to the spouse if they are aged between 67 and 75.

Carry-forward (catch up) contributions

Commencing from the 2019 financial year, any unused amounts of the annual \$25,000 concessional contributions cap can be claimed over the next five years. So 2021 could include a potential super deduction of up to \$75,000 to offset other income, reduced by what contributions you have claimed since 2019 or what has been paid on your behalf by employers.

This tax benefit is only available to members with less than \$500,000 in superannuation at the end of the previous financial year, and includes all your super funds like retail, industry or Government funds.

Proposed Changes Yet to be Legislated – due to commence from 1 July 2020 when passed

Non-concessional Contributions Bring Forward Rule

Similar to the extension of the work test rule, the three year bring forward rule has been extended to the year the member turns 67. Again, this may allow an additional two years or potentially up to \$200,000 of extra non-concessional contributions to be made into super.

It is important to note that the deemed retirement age to access your super under the Preservation rules has stayed at age 65.

Increasing the SMSF Member Limit from 4 to 6

Still to pass the Senate, this increase in member numbers for SMSFs has been reintroduced after lapsing prior to the 2019 Federal election.

The Government hopes that this will increase the flexibility of family superannuation funds, where often there may be more than two children, or allow spouses of three siblings to be added to an SMSF to achieve greater scale of investments, including business property investments.

This may not be all that significant as currently only 7% of SMSFs have three and four members.

It is important to consider the impacts of small balance junior family members and overall control of the fund, particularly with succession planning issues, potential divorce issues and elder members perhaps losing capacity to make their own decisions, and how this would impact the running of the SMSF.

Other Changes

- ◆ COVID-19 early release of super - \$10,000 before 30/06/2020 & \$10,000 before 31/12/2020
- ◆ COVID-19 rental income deferrals
- ◆ COVID-19 temporary reduction in super pension minimums for 2020 and 2021

Next Month's Newsletter

- ◆ Revisit the Re-contribution Strategy to save big dollars for your adult children.
- ◆ Potentially make use of the age 65 retirement and age 67 contribution rules arbitrage opportunity.

If you have any questions or would like to discuss any of these issues further, then please contact Roger Thomson on (08) 6274 6400 or robert@byfields.com.au