Key questions asked at our adviser webinar

Federal Budget 2021/22

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Superannuation

1. **Question:** Has the indexation of the concessional and non-concessional contribution caps for 1 July 2021 been legislated?

   Answer: The legislation for the indexation of the concessional contributions cap is already in place. Under current legislation the concessional contribution cap increases in increments of $2,500 in line with average weekly ordinary time earnings. There was no need for further legislation to have this change apply. From 1 July 2021 the concessional contribution cap is $27,500 and the annual non-concessional cap is four times the concessional cap, that is, $110,000.

2. **Question**: Is the $500,000 total super balance limit for carry forward concessional contributions indexed?

   Answer: There is no indexation for the $500,000 total super balance limit for carry forward concessional contributions.

3. **Question:** Do low income earners pay 15% contributions tax on super guarantee contributions?

   Answer: A member who is deemed to be a low-income earner may be eligible to have the 15% contributions tax paid back to their superannuation account. The member's adjusted taxable income must be $37,000 or less. The payment which is paid directly to the super fund is called the low-income super tax offset (LISTO). The amount paid is 15% of the concessional contributions made to the super fund by or on behalf of the member.

   The maximum payment is $500 per financial year and the minimum is $10. If the member is eligible for less than $10, the amount is rounded up to $10. The member does not have to do anything to receive a LISTO except to ensure the super fund has their tax file number (TFN) recorded.

4. **Question:** Do personal concessional contributions when aged between 65 and 67 require the work test?

   Answer: Currently the work test is not required to make personal contributions, be it non-concessional and personal deductible (concessional) contributions unless the contributions are made on or after the person's 67th birthday.

   The Budget 2021 proposal (which is not yet law) is to abolish the work test only for non-concessional contributions and salary sacrifice contributions for those aged 67 to 74. However, for personal deductible contributions the work test will be required.

5. **Question:** Is the bring-forward now available for clients 65 and 66 as there is much confusion around the changes?

   Answer: The bring forward rules have not changed. Under existing rules, clients must be age 64 or less at 1 July to trigger the bring-forward. There is proposed legislation to increase the age limit from 64 to 66 from 1 July 2020. The legislation has been outstanding for many months and continues to be unresolved.

   The proposal in the 2021/22 Federal Budget modifies the rule further so that anyone aged up to age 74 could trigger the bring-forward rule with the effective date likely to be 1 July 2022. However, at this stage, the measure is a proposal and we must wait for further guidance.

   We will keep advisers informed of any developments in our Monthly TechConnect Bulletin.

6. **Question:** Are concessional contributions affected by total superannuation balance thresholds?

   Answer: Concessional contributions do not require a member to refer to their total superannuation balance except where they wish to use carried forward unused concessional contribution caps from previous financial years starting from 1 July 2018. In that case, their total superannuation balance must be less than $500,000 at 30 June just before the financial year of contribution.

7. **Question:** When calculating the used transfer balance cap percentage, is it always rounded down?

   Answer: When calculating the USED transfer balance cap (TBC) percentage it is always rounded down to the nearest whole number. When it is not rounded down, the client may miss out on a few hundred dollars of unused TBC. The following steps may be used to calculate the partially indexed personal TBC:

   Step 1: Identify the highest ever credit transfer balance in the client's transfer balance account.

   Step 2: Divide the highest ever credit transfer balance by $1,600,000. Express the result as a percentage, rounded down to the nearest whole number. This is the used TBC percentage.

   Step 3: Deduct the used TBC percentage from 100% to get the unused TBC percentage.

   Step 4: Multiply the unused TBC percentage by $100,000 (which is the increase in the general TBC). The result is the client's increase in their personal TBC.

   Step 5: Add the result in Step 4 to $1,600,000. This will be the client's personal TBC from1 July 2021.

   For more information please refer to our technical bulletin: https://www.ioof.com.au/about-us/news-and-updates/techconnect-bulletin/articles/january-2021/increased-general-transfer-balance-cap

8. **Question:** Under the proposed measure to allow the commutation of legacy retirement products, what products can be commuted? Can market linked pensions that commenced after 20 September 2007 (which may have themselves arisen following commutation of pre 20 September 2007 pension) be commuted?"

   Answer: The Budget proposal is to allow the commutation of legacy retirement products such as market linked pensions (term allocated pensions), life-expectancy pensions and lifetime pensions which commenced prior to 20 September 2007. These are complying income streams paid from SMSFs, SAFs and APRA regulated super fund providers.

   Defined benefit pensions paid from APRA regulated defined benefit funds and public sector defined benefit schemes are excluded from the measure.

   We have limited guidance at this point, but the Government discussion paper indicates that post 20 September 2007 income streams would not be covered if the original income stream commenced prior to that date.

   When referencing products covered, the discussion paper outlines "Market-linked, life-expectancy and lifetime products which were first commenced prior to 20 September 2007 from any provider, including self-managed superannuation funds (SMSFs)."

9. **Question:** There is no announcement about the minimum drawdown rate for pensions. Will the reduced or standard rate apply for the next financial year?"

   Answer: Federal Budget 2021/22 provided no announcement on the minimum pension payments and further reductions. Accordingly, the halving finishes at the end of this financial year. From 1 July 2021, the standard minimums will apply.

10. **Question:** The downsizer super contribution is proposed to be extended to clients age 60 or more. But is the downsizer contribution increasing to $330,00 on 1 July 2021, like the bring-forward non-concessional contributions cap?

    Answer: The downsizer contribution is set at $300,000 per person and is not indexed. In contrast, the 3-year non-concessional cap increases to $330,000 on 1 July 2021 (if your client is not already in a bring-forward period).

11. **Question:** Would the ATO MyGov show the 'up to date' concessional contribution cap amount or only up to 30 June of the previous financial year? Would MyGov ATO show total superannuation balances (TSB) for the 30 June of the previous financial year? Can we rely on this TSB amount to help our clients to decide if they can still make additional NCC?

    Answer: The information found in the client's MyGov ATO will show:

    - Unused concessional contribution caps from 1 July 2018
    - Concessional super contributions, including employer super contributions, during the financial year
    - Total superannuation balance
    - Transfer balance cap events reported
    - Eligibility for personal transfer balance cap indexation
    - Division 293 election
    - Compassionate release
    - First Home Saver

    The total superannuation balances on the MyGov ATO are amounts which have been reported to the ATO by super funds. It shows all your client's super funds from which the TSB is derived by the ATO. It is worth checking the amount against your client's statements and to check that all transactions such as roll-overs (if any) between interests at that point in time have been included.

    It is best to confirm information on contributions against the client's statements to ensure that recent transactions have been reported and are correct.

12. **Question:** Do you know if the industry is pushing for financial advisers to be able to access the ATO tax portal for clients so we can double check their superannuation information without the need to contact the accountant?

    Answer: Our understanding is that the SMSF Association has raised the issue in its pre-budget submission to the Treasury. The Financial Planning Association of Australia also mentioned this in its submission to ASIC's affordable advice consultation. Access to the client's ATO information can help cut administration hours for most practices which may result in reduced fees and more accurate advice.

    We do not have any clarity on if or when this will occur at this stage.

13. **Question:** If legislated, can the stapled fund be nominated by an existing employee after 1 July 21 or only new employees?

    Answer: The legislation to establish the stapling rules is not yet law and subject to change. The proposed stapled fund rules will only apply to new employees from 1 July 2021.

    The stapled fund rules will replace the default fund rules, which outlines if the new employee does not make a choice of super fund, the employer is obliged to contribute to the stapled fund (a stapled super fund is an employee's existing fund from previous employer - where applicable)

    Only if there is no chosen or stapled fund does the employer make contributions to the employer's default fund.

    For existing employees, contributions continue to the existing fund unless the employee makes a new choice of fund. Many public sector employees and defined benefit fund members are excluded from choice of fund. There are also some employees covered by pre 1 January 2021 industrial agreements that specify particular super funds. These existing employees may not have the opportunity to make their own choice.

Social Security and Aged Care

14. **Question:** My client is receiving the Age Pension and wants to know if there were any budget changes impacting them or any stimulus payments?

    Answer: There were no proposed changes to Age Pension and no stimulus payments in the budget. There are proposed enhancements to the Pension Loans Scheme that may benefit Age pensioners if they wish to take advantage of it.

15. **Question:** Is the pension loan scheme available to those not eligible for Age Pension?

    Answer: The Pension Loan Scheme (PLS) is available to clients if they or their partner is of Age Pension age.

    Clients must meet eligibility to receive a qualifying pension on their own. They must have real estate in Australia that can be used as security for the loan. Clients must not be bankrupt or subject to a personal insolvency agreement. For more information please refer to: https://www.servicesaustralia.gov.au/individuals/services/centrelink/pension-loans-scheme

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