

Super contributions caps set to rise next year

There's good news on the horizon for superannuation investors looking to maximise their balances, with contributions caps set to rise for the first time in years on 1st July 2021. The increases have come about because of indexation provisions contained within the governing legislation.



Concessional Contributions

The maximum concessional contributions limit will be increased to **\$27,500 pa from 1st July 2021**, up from the current limit of \$25,000 that has been in place since 1st July 2017. Indexation is connected to increases in Average Weekly Ordinary Time Earnings (AWOTE), but only occurs where the total increase over current limits exceeds \$2,500. With the latest December increase in AWOTE having been announced, that threshold has now been met.

'Concessional' contributions are essentially a person's ordinary pre-tax superannuation contributions, usually made up of employer-paid compulsory super, any salary-sacrifice deductions and contributions for which a person may claim a tax deduction in their personal income tax return. These are 'concessionally' taxed at 15% in the fund but are limited to prevent this attractive tax treatment from being abused (which is not to make any comment on whether the current level is sufficient to provide for a comfortable retirement).

Non-concessional contributions

The non-concessional contributions cap will also be increased to **\$110,000 pa on 1st July**, from the current level of \$100,000. This is a limit placed on amounts that can be contributed from after-tax funds. For example, a person may have personal savings that they decide to move into super for the attractive tax treatment of the earnings. No tax is paid on the contributions in the fund, since the money has already been taxed outside of the fund when it was earned, but any future income on the balance will be taxed at 15%.

For members who are under 65 at the start of the year (which will become 67 if proposed legislation passes), there is also the option to bring forward three years of non-concessional contributions into the current year. This is handy where, for example, a person receives a significant windfall and wants to put some or all of it into super now. At current levels this would mean up to \$300,000 can be contributed in a single year, with nothing further available for the following two years once the limit is reached. **From 1st July 2021 the maximum amount that can be brought forward will be increased to \$330,000.**

There is an important consideration to take into account with this increase. If the 'bring-forward' rule has already been triggered in a prior year, the three-year limit is locked in until the expiry of the bring-forward period (i.e. until the end of the third year). This means that the new limits won't be available to any members who have already triggered the cap and brought forward next year's contributions (and the year following if 2020-21 is the first year). The limit in such cases will remain at \$300,000, even where the full amount has not yet been paid in.

While that makes it too late for those that have triggered the three-year limit prior to this time, anyone who is thinking about doing something before 30th June 2021 should consider speaking to a licensed

financial adviser about whether it's worth waiting until after 1st July in order to access the higher limit.

These limits assume that the member's total balance in super as at 30th June this year will be no more than \$1.48 million (also increased from \$1.4 million previously).

General transfer balance cap

In addition to the above, **the general transfer balance cap will increase to \$1.7 million from 1st July this year**, up from the current cap of \$1.6 million. In simple terms, this cap limits the amount of a member's balance on which the earnings can be tax free in retirement. Having previously been unlimited, the cap was introduced a few years ago to limit the cost to the Government of providing tax-free retirement savings to higher-wealth individuals. Once a retirement income stream is commenced, the cap is triggered and earnings on any balance over this limit continues to be taxed at 15% (rather than being tax-free in pension mode).

It likely won't come as a surprise that the issue has been made more complicated than it needs to be. Those who have already commenced a pension in super with a transfer balance of \$1.6 million will retain that limit. Those who have commenced a pension with a transfer balance of less than \$1.6 million will have their own unique transfer balance cap, somewhere between \$1.6 million and the new \$1.7 million limit, based on the highest level their transfer account has achieved since 1st July 2017.

This unique transfer balance cap figure will only be accessible through your myGov account. In a further irony, your tax agent, who cannot advise you on superannuation, will also be able to view your unique cap number, but your financial adviser, who is licensed to provide such advice, usually cannot.

What to do next?

If you're a person who pays close attention to maximising the amounts that you contribute to super, there are some changes here that will likely affect you. We can advise you in a general sense about the tax implications of these increased limits, but for specific advice about what you should do, taking into account your unique circumstances, you may want to speak to your licensed financial adviser before the end of the financial year.

If you have any questions about these measures, please [contact us](#).

Liability limited by a scheme approved under Professional Standards Legislation.

For further advice or information please contact us. Whilst this newsletter is issued as a guide, no responsibility is accepted by Dewings for loss by any person acting or refraining from acting on the material provided. The information enclosed should not be substituted for professional advice.

This information is not 'financial product advice' as defined by the Corporations Act. Taxation is only one of the matters that you need to consider when making a decision on a financial product. You should consider seeking advice from an Australian Financial Services licensee before making any decisions in relation to a financial product.

You're receiving this email because you are a client or business contact of Dewings and have given us permission to correspond with you by email.

Unsubscribe ldegnan@dewings.com.au from this list.

Our mailing address is:
Dewings
PO Box 170
Fullarton, South Australia 5063
Australia

Add us to your address book

Copyright (C) 2021 Dewings All rights reserved.

Forward this email to a friend
Update your profile



