INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Excess superannuation contributions

There is no restriction on the amount of money that can be contributed into a self-managed superannuation fund (SMSF). However, superannuation contributions above certain contributions caps do not receive concessional tax treatment. The two main types of contributions caps are the concessional contributions cap and the non-concessional contributions cap.

Concessional contributions cap

From first of July 2017, the concessional contributions cap is $25,000 per annum regardless of age. Concessional contributions received in a Super Fund of up to $25,000 per annum are taxed at the concessional tax rate of 15%.

Catch up concessional contributions cap: Also, from 1 July 2018, members with total superannuation balances of less than $500,000 at 30 June of the previous financial year are able to carry forward any unused concessional contributions caps on a rolling basis for five financial years. Any unused amounts carried forward but not used after five years will expire.

The first financial year in which members can access unused concessional contributions is the 2019/2020 financial year.

Excess concessional contributions above $25,000 per annum are liable for additional tax. The liability for the excess concessional contributions tax is imposed on the member and member of their excess concessional contributions amount included in their assessable income in their income tax return and taxed at their marginal tax rate.

A Super Fund member with excess concessional contributions is given the opportunity to withdraw up to 85% of the excess concessional contributions amount from their Super Fund. The amount is capped at 85% as the remaining 15% represents the tax liability paid by their Super Fund on the excess concessional contributions.

If the member chooses to withdraw the excess amount from their Super Fund, the full excess amount will be taxed at the member's marginal tax rate with a 15% tax offset to compensate for the tax already paid by their Super Fund.

An Excess Concessional Contribution (ECC) Charge (i.e. interest) is applied on the excess amount. The intent of the ECC charge is to acknowledge that the tax is collected later than normal income tax. The ECC charge period is calculated from the start of the financial year in which the excess concessional contributions were made, and ends the day before the tax is due to be paid in the member's first tax assessment for the relevant financial year.

The formula for calculating the ECC charge uses a base interest rate plus an uplift factor of 3%. The base interest rate is the monthly average yield of 90-day Bank Accepted Bills published by the Reserve Bank of Australia. The compounding interest formula is applied against the base amount for each day of the ECC charge period.

Importantly, if the member chooses to withdraw the excess concessional contributions from their Super Fund, the excess amount does not count towards the non – concessional contributions cap.

If the member chooses to retain the excess concessional contributions in their Super Fund, the excess amount will be subject to an additional 32% tax and count towards the member's non-concessional contributions cap. This means, any excess concessional contributions remaining in the member's Super Fund will be subject to 47% tax in total (i.e.15% contributions tax + 32% excess contributions tax).

Non-concessional contributions cap

From 1 July 2017, the non-concessional contribution cap is $100,000 per annum. Super Fund members under the age of 65 have the option to contribute up to $300,000 in one year (using the three year bring forward rule), depending on their total superannuation balance.

Non-concessional contributions also include excess concessional contributions not withdraw from the member's Super Fund.

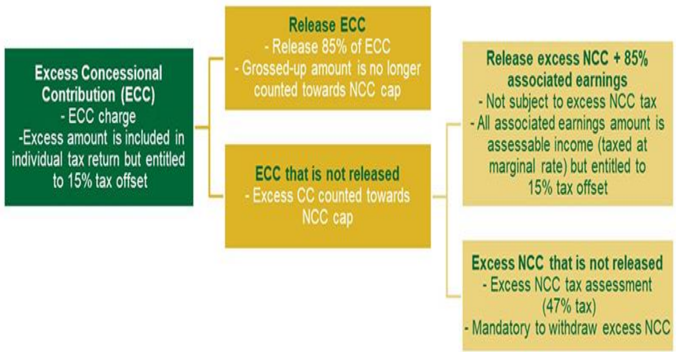
If a Super Fund member exceeds their non-concessional contributions cap, then the ATO will issue the member with an excess non-concessional contributions determination and provide the member with the option to withdraw all their excess non-concessional contributions plus 85% of the associated earnings from their Super Fund. The full associated earnings amount stated in the member's determination will be included in the member's assessable income and taxed at their marginal rate of tax. A non-refundable tax offset of 15% is applied to recognise the tax paid by their Super Fund on the associated earnings. The associated earnings amount is calculated to approximate the amount earned from the investment of the excess non-concessional contributions while it was held in the member's Super Fund. The rate used to calculate the associated earnings is the average of the general earnings is from 1 July of the financial year (irrespective of the date on which the contributions were actually made) until the date the ATO issues its determination. The associated earnings rate is applied on a daily compounding basis to the excess non-concessional amount for the length of the associated earnings period.

If the member chooses to withdraw all of their excess non-concessional contributions and 85% of the associated earnings from their Super Fund, the member must inform the ATO of the details of their superannuation fund(s) to release the amount from. Upon receiving the member's election form, the ATO will issue a release authority to the member's nominated superannuation fund(s). The fund(s) must respond generally within 20 working days and release the available funds to the ATO. The ATO will then use the money to offset against any outstanding tax liability or Commonwealth debts belonging to the member, with any remaining balance refunded to the member.

If the member chooses to retain their excess non-concessional contributions in their Super Fund, they will receive an excess non-concessional contributions tax assessment. The excess non-concessional contribution will be taxed at 47%. The member will receive a compulsory release authority with their assessment which they must give to their Super Fund to pay the amount of the assessment.

If the member decides not to do anything once they have received the excess non-concessional contribution determination from the ATO, then the ATO will issue a release authority to the member's Super Fund. The member's Fund must release the amount from the member's superannuation account to the ATO in accordance with the instructions on the release authority. The ATO will then release any balance of the released amount to the member after it has offset the amount against any ATO or Commonwealth debts belonging to the member. The ATO will also amend the member's income tax assessment to include the full amount of the associated earnings which will be taxed at the member's marginal tax rate. A non-refundable tax offset of the 15% will be applied to the associated earnings to recognise tax paid by the member's SMSF.

Below is a flowchart on how excess contributions are taxed:



Source: Reliance Auditing Services

The SMSF sector is growing by $23,200 every minute

Photo by Samuel Zeller

The latest statistical report from APRA has been released (here's a link to download it – https://bit.ly/2ooF3EJ), which of course mainly focuses on the APRA – regulated superannuation funds in the retail and industry sectors.

But the APRA statistics also make passing mention of ATO – regulated funds, the SMSF sector, which from June 2018 to June 2019 grew in total assets from $735.4 billion to $747.6 billon – an increase of $12.2 billion. For a bit of fun, you can think of that equalling roughly $33.4 million each day, $1.4 million each hour, or $23,200 every minute.

The number of SMSFs over that period grew from 581,853 to 599,678 – a jump of 17,825 funds (an establishment rate of just shy of 50 new funds every day).

The overall total of superannuation assets to the end of June 2019 was $2.87 trillion, an increase of 6.1% over the year.

Of APRA-regulated funds, the statistics show that industry funds grew in assets by 13.8% over the year to June 2019, with the retail sector recording an increase of 0.51%. That trend was shown by the prudential regulator to be particularly emphasised over the last three months of the income year, with the industry fund share of assets increasing 6% compared to a retail funds growth of 0.35%.

A year ago, APRA's statistics had industry and retail funds much closer in terms of their control over the proportion of total retirement saving assets, with industry funds holding 23.4% and retail 23%. The 2018-19 results show those figures now standing at 25% and 21.8%.

Investments of APRA-regulated funds over the year showed 50.9% invested in shares (24.4% in international listed equities, 22.4% Australian equities, and 4% in unlisted). Fixes income accounted for 21.6% of investment, with cash of 9.8%.
Source: Butler Settineri

How to spot Elder Financial Abuse

Elder financial abuse is not a new problem. Throughout Australia the elderly have lost their savings, valuables, and homes through financial abuse but it's only now that serious steps are being taken to address the issue.

As a financial adviser, you're in a unique position to spot questionable behaviour and create a safe environment where clients can speak openly without pressure or intimidation.

WHAT IS ELDER FINANCIAL ABUSE"?

Elder financial abuse is the theft or improper use of money or assets of an elder person (generally aged 65 or older). "It can include but is not limited to, behaviours such as using finances without permission, using a legal document such as an enduring power of attorney for purposes outside what it was originally signed for, withholding care for financial gain, or selling or transferring property against a person's wishes." It can happen to any elderly person regardless of their socio-economic status. It can include a broad range of conduct from deception to intimidation from family members, friends or carers. Whilst the number of Australians suffering financial abuse is unknown, it's conservatively estimated to be at least 10% of older Australians each year and the perpetrators are most likely their own adult children.

COMMON WARNING SIGNS

A combination of diminished mental capacity and questionable changes in behaviour can be red flags signalling financial exploitation. Below are some of the things to look out for when meeting with your older clients:

1. Diminished capacity or vulnerability
    - Signs of depression, loneliness or forgetfulness;
    - Changes in their ability to care for themselves or becoming dependent on others for care; and
    - The person providing your client's care or managing their finances makes you feel uncomfortable.
2. Questionable changes in financial behaviour
    - Suspicious signatures on financial transactions;
    - Sudden/unexplained changes to the power of attorney.
    - Sudden/unexplained changes to the power of attorney, will, or ownership of assets;
    - A new 'best friend' in your client's life who is making decisions;
    - Sudden or large amounts of money are given to family, friends, charities or others; and
    - An overall disappearance of money, valuables or financial statements.

WHAT TO DO IF YOU SUSPECT ELDER FINANCIAL ABUSE?

As a trusted financial adviser to older clients, not only can you help make their money go the distance, you can also help them if they become vulnerable to financial abuse. By engaging with your client on an emotional level, you can build trust beyond conversations about their investment portfolio. This is particularly important when they're vulnerable, as you can provide them a safe space to talk about their circumstances.

If you can see the warning signs for financial exploitation, you can call 1800 ELDER Help (1800 353 374) which connects you to information and advice on elder abuse.

Source: Allianz Retire+ Powered By Pimco

We are always available to discuss any questions or concerns you may have.

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