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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

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SMSF and small APRA fund membership increase

From 1 July 2021, the maximum number of members for self-managed superannuation funds (SMSF) and small Australian Prudential Regulation Authority (APRA) funds increased from four to six.

SMSFs can either have individual trustees or a corporate trustee where all members are directors of the corporate trustee. Some State and Territory laws restrict the number of trustees a trust can have to less than six. An SMSF is a type of trust, so it is important you see your Financial Adviser to help you understand if your SMSF is impacted by these restrictions. To avoid this issue SMSFs can have a corporate trustee and each member is a Director of that Corporate trustee.

The Australian Taxation Office is currently implementing the necessary system changes to enable SMSFs to add members five and six to their fund through the Australian Business Register (ABR). We recommend you wait until the ABR is updated before you register or update your fund with more than four members.

Once you register, complete and lodge a paper Change of Details for superannuation entities form (NAT3036). It is important to note there may be delays to some processes while our interim process is in place. Source: Australian Taxation Office

Technical Update: Superannuation Guarantee rate increases to 10% on 1 July 2021

The Superannuation Guarantee (SG) rate as currently legislated will increase from 9.5% to **10%** with effect **from 1 July 2021** with further increases of 0.5% per year to come from 1 July 2022 until it reaches 12% from 1 July 2025 onwards. The SG rate increases were not affected by the 2021-22 Federal Budget. Accordingly, from 1 July 2021 not only will employers need to update their payroll settings to reflect the 0.5% increase in the SG rate, but importantly both employers and employees will need to consider the potential increased SG costs of these changes going forward.

Impact on employers and employees – The financial impact of the 0.5% increase in the SG rate will depend on the terms of existing and new salary and wage packages.

The effect of the increase on particular salary packages need to be carefully considered to determine whether the additional 0.5% SG contribution needs to be added on top of the existing salary package (i.e. no change to employee's take

home pay) or incorporated into the existing salary package (i.e. resulting in a reduction of the employee's take home pay). In addition, employers will need to consider the effect of the increase in the SG rate on relevant employee awards.

Salary sacrifice arrangements – Employers also need to be aware that they cannot use an employee's salary sacrifice contributions to account for the extra 0.5% of SG. The ordinary time earnings (OTE) base for SG purposes now specifically includes any sacrificed OTE amounts. This means that contributions made on behalf of an employee under a salary sacrifice arrangements are not treated as employer contributions which reduce an employer's charge percentage.

Maximum super contribution base and opt-out for multiple employers – The increase in the SG rate to 10% from 1 July 2021 means the maximum super contribution base (i.e. earnings that employers do not have to pay SG on above limit) will increase on 1 July 2021 to $58,920 per quarter ($235,680 per annum), up from $57,090 per quarter ($228,360 per annum).

The increase in the SG rate to 10% from 1 July 2021 also means that the opt-out income threshold will increase to $275,000 from 1 July 2021 (up from $263,157). This allows high-income earners with multiple employers to opt-out of the SG regime in respect of an employer to avoid unintentionally breaching the concessional contribution cap.

Concessional contributions cap increase – In addition, from 1 July 2021 the annual concessional contributions cap (which effectively limits the annual concessional super contributions for employees) will increase from $25,000 to $27,500. Employers may wish to remind employees that concessional contributions made beyond this amount may attract higher tax rates and an excess contribution charge and therefore should generally be avoided. Source: BDO Australia

Superannuation, More flexibility for older Australians Budget 2021-22

The 2021-22 Budget is giving older Australians, including self-funded retirees, greater flexibility to contribute to their superannuation and access their housing wealth if they choose to by:

- Repealing the work test for voluntary non-concessional and salary sacrificed superannuation contributions for those aged 67 to 74
- Improving the Pension Loans Scheme
- Extending access downsizer contributions
- Giving older Australians the choice to move out of legacy retirement.

Repealing the work test

Retirees aged 70 today potentially had 20 years or more in the workforce before compulsory superannuation was introduced in 1992.

That is why the Government will amend the work test rules to allow retirees who have not had the benefits of compulsory superannuation throughout their working lives to get more out of the superannuation system. This change also recognises that many retirees have accumulated savings outside of superannuation.

From 1 July 2022, individuals aged 67 to 74 will no longer be required to meet the work test when making, or receiving, non-concessional superannuation contributions or salary sacrificed contributions. These individuals will also be able to access the non-concessional bring forward arrangement, subject to meeting the relevant eligibility criteria.

The existing $1.6 million cap on lifetime superannuation contributions will continue to apply (increasing to $1.7 million from 1 July 2021). The annual concessional and non-concessional caps will also continue to apply.

Access to concessional personal deductible contributions for individuals ages 67 to 74 will still be subject to meeting the work test.

This change builds on the Government's previous reforms to the age rules on superannuation contributions, further increasing the ability of older Australians to make contributions to their superannuation.

Improving the Pension Loans Scheme

The Government is increasing the flexibility and attractiveness of the Pension Loans Scheme (PLS) for senior Australians.

From 1 July 2022, the Government will introduce a No Negative Equity Guarantee for PLS loans and allow people access to a capped advance payment in the form of a lump sum.

Immediate access to lump sums under PLS

Eligible people will be able to receive a maximum lump sum advance payment equal to 50 per cent of the maximum Age Pension. Based on current Age Pension rates, this is around $12,385 per year for singles, while couples combined could receive around $18,670.

A maximum of two advances totalling up to the cap amount are permitted in a year, for those who do not want to take an advance in one instalment.

Background on the PLS

The PLS is a voluntary, reverse mortgage type loan available to assist older Australians who wish to boost their retirement income by unlocking equity in their real estate assets.

Through the PLS, people can receive additional regular fortnightly payments with payments accruing as a debt secured against their Australian property.

The PLS allows a fortnightly loan of up to 150 per cent of the maximum rate of Age Pension and an interest rate, currently set as 4.5 per cent, in charged.

PLS and age pensioners

Under the existing PLS, those with a full-rate Age Pension can get an annual income boost worth 50 per cent of a full Age Pension representing around $12,385 per year for singles and around $18,670 for couples. This is on top of receiving a full Age Pension.

The increased flexibility from 1 July 2022 will allow a full-rate age pensioner to access their entire annual PLS amount as a lump sum. This is on top of receiving a full-rate Age Pension. Source: Budget 2021/22 Fact Sheet

Steps to take when winding up your SMSF

There will most likely come a time when your SMSF will need to be wound up, with a change in members, the fund's finances, perhaps separation or other family causes among the many reasons why winding up the fund becomes necessary.

The many reasons people may find it necessary to wind up an SMSF could include:

- There are no members left- they may have passed away or rolled benefits into other funds.
- There are no assets left - the SMSF may have paid members all of their benefits.
- Divorce - a marriage breakdown may force husband and wife members to split the fund's assets and may affect the ability of members to effectively undertake their trustee obligations.
- Insufficient funds- there is not enough money in the fund to keep covering running costs.
- Old age - trustee's circumstances may have changed in a way that has affected their capacity to effectively manage an SMSF, which can be complex and constantly requires a significant investment of time and expertise.
- Death - where there is only one member, their legal personal representative will be required to pay out all benefits nomination. Where there is more than one member, other members may not wish to continue the fund.

Once the decision to wind up an SMSF has been made, it is always a good idea to sit down and read your trust deed, as it may contain vital information about winding up your fund. And remember, once a fund is wound up, it cannot be reactivated.

THE NECESSARY STEPS

You need to let the ATO know within 28 days of the fund being wound up. This is best done in writing, to ensure a record is made, but you must include:

- The name of your SMSF
- It's Australian business number (ABN)
- Your name and contact details, and
- The date you wound up your SMSF.

You will also need to deal with members benefits, and will have to make sure that:

- You deal with member's benefits according to the superannuation law and the trust deed
- You obtain market value balances of all related accounts
- You ensure all SMSF assets have been sold and member contribution dealt with in accordance with the trust deed and superannuation laws.
- You ensure all proper steps are taken to transfer ownership and title of any assets.
- You decide whether any corporate trustees in your fund wish to deregister with the Australian Securities and Investments Commission (ASIC), and
- Your fund has no assets left once it has been wound up.

But remember, if you have wound up your fund but you, as a member, have not met a condition of release – retirement, transition to retirement, or reaching an eligible age - you cannot access your superannuation. Your superannuation needs to be rolled over into another regulated superannuation fund. There are serious legal penalties for accessing your superannuation benefits before you are legally allowed.

TAX IMPLICATIONS

Unrealised capital gains – If an Asset(s) of the fund has been held over a long period, a capital gain or loss event would be triggered upon disposal where the SMSF in accumulation phase. If the fund is wound up and a net capital gain arises, the fund will have significant taxation liabilities which, in effect will reduce the members overall superannuation balance.

Significant realised/unrealised capital loses- Alternatively, the reverse is that the fund may realise a capital loss during the wind-up process. While these capital losses can be added to the capital losses carried forward from previous years and offset against any current year capital gains, any residual capital losses that are not utilised during the wind-up process will be wasted. Because they cannot be transferred to another person (member or beneficiary) or entity (another superannuation fund), the benefit from any remaining unused capital losses will be lost once the fund wound up.

Carried forward income tax losses – Some SMSF's can have carried forward income tax losses (because they could not claim any tax deductions that exceeded their income) that could be used to offset any future taxation liability of the fund. Unfortunately, as with capital losses, the benefit of using up its carried forward income tax loss will be lost upon wind up. Source: Butler Settineri

Should you wish to discuss any aspect of the information contained in this document, please contact your Financial Planner

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