INSIDE

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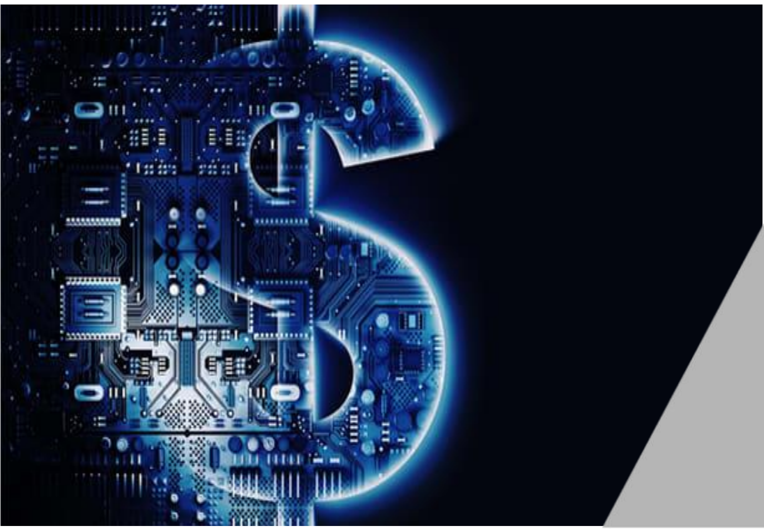
FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE



- How to catch-up concessional contributions work
- COVID-19 relief for SMSF trustees now at an end
- Are life insurance pay outs taxed?

How to catch – up Concessional Contributions work

If you've had interrupted income, or just haven't been in a position to put as much into super as you'd like, catch-up concessional contributions may provide an opportunity to top up at a more convenient time.

You won't always be in a position to put money into your super. You might be taking time off work to study or care for children, or you might have other financial commitments you're prioritising like paying the mortgage.

Should the time arise when you can and want to contribute more to your retirement savings however, you may be eligible to make catch-up concessional contributions.

This is where, if you make or receive concessional super contributions that are less than the annual concessional contributions cap (currently $27,500), you could accrue unused cap amounts for up to five years.

What are concessional contributions?

Concessional contributions (which count toward your concessional contributions cap) include:

- **Compulsory SG contributions** which are the before-tax contributions your employer is required to make into your super fund under the super guarantee, if you're eligible.
- **Voluntary salary sacrifice contributions**, which are additional contributions you can get your employer to make into your super fund out of your before-tax income, if you choose to.
- **Voluntary tax-deductible contributions**, which are contributions you can make (such as when you transfer from your bank account into your super) that you can then claim a tax deduction for.

Note, concessional contributions get special tax treatment, which for most people means you'll generally pay less tax on your super contributions than you do on any income you receive.

What are the rules around catch-up concessional contributions?

To be eligible to make catch-up concessional contributions the following must apply, noting that catch-up concessional contributions can be made on top of the annual concessional contributions cap ($27,500).

- Your total super balance needs to be less than $500,000 on 30 June of the previous financial year. Note, your total super balance is broadly the sum of all your super accounts including pensions.

- You can only carry forward unused concessional contribution cap amounts from 1 July 2018.
- Unused cap amounts can only be carried forward for five years until they expire.

The below scenario shows what Bob could carry forward over one year

Annual concessional super contributions cap	**$27,500**
Concessional contributions made this financial year	**$10,000**
Unused concessional contributions that could be carried forward for up to five years	**$17,500**

What this means is, any time over the next five years, Bob could contribute up to the annual concessional contributions cap of $27,500 + the unused cap amount of $17,500, which would mean Bob could contribute up to $45,000 in concessional contributions in one financial year, if his total super balance is less than $500,000 on 30 June of the previous financial year,

If in this scenario, Bob also carried forward unused cap amounts from the four years following, he would also be able to contribute any additional unused amounts on top of that, noting his total super balance would need to still be under $500,000 on 30 June of the previous financial year to do so.

This example is illustrative only and isn't an estimate of the investment returns you'll receive, or fees and costs you'll incur.

How could catch-up concessional contributions benefit me?

If you've spent time out of the workforce or haven't had the money to contribute as much as you'd like to, the rules may give you the ability to make larger and or additional concessional contributions than you'd otherwise be able to make, and at a time that's more convenient for you.

If you're approaching retirement and are looking at ways to potentially maximise your retirement savings while minimising tax through the system, catch-up contributions could also give you some flexibility.

How do super bring-forward rules differ?

If you're under age 75 at the start of the tax year, you may have heard that you might also be able to make up to three year's worth of non-concessional super contributions in a single income year, if you're eligible.

This means you may be able to put in up to three times the non-concessional annual cap of $110,000, which means you may be able to top up your super by $330,000 within the same financial year.
Note, non-concessional contributions are different to concessional contributions and there are rules you'll want to be across.

What other things should you know

- If you exceed concessional and non-concessional super contribution caps, additional tax and penalties may apply.
- The value of your investment in super can go up and down, so before making extra contributions, make sure you understand, and are comfortable with, any potential risks.
- The government gets general rules around when you can access your super, which typically won't be until you reach your preservation age (which will be between 55 and 60, depending on when you were born) and meet a condition of release, such as retirement.

Please speak with your financial adviser to assist.
Source: AMP Insights

COVID-19 relief for SMSF trustees now at an end

The ATO has reminded SMSF trustees that the COVID-19 relief and support offered to SMSFs ended on 30 June 2022.

At the peak of the COVID-19 pandemic, SMSF trustees that were financially or otherwise impacted by the recurring and prolonged lockdown periods were granted relief by the ATO.

The relief was offered to SMSFs for the 2019/20, 2020/21 and 2021/22 financial years where certain situations beyond their control may have caused SMSF trustees to contravene superannuation law.

For example, an SMSF trustee may have given tenant/s (including a related party tenant) a reduction in rent if they were financially impacted due to COVID-19. As charging a price that is less than market value will usually give rise to contraventions under the superannuation laws, the relief measures avoided this outcome if the arrangement met certain criteria (ie. the relief was offered on commercial terms and the arrangement was documented, etc).

The relief measures that were available

The table shows the types of relief SMSF trustees were offered by the ATO.

Actions required for SMSF trustees

As the ATO's COVID-19 support has ended, the ATO expects:

- SMSF trustees to now comply with their obligations under the income tax and superannuation laws previously covered by the relief
- Approved SMSF auditors to report contraventions to the ATO via the Auditor/actuary contravention report (ACR) where the reporting criteria is met.

The ATO has also reminded SMSF trustees to ensure they document any relief they accessed and to provide their SMSF auditor with evidence to support their case for the purpose annual SMSF audit.

SMSF trustees have also been encouraged to take advantage of the ATO voluntary disclosure service and formulate a plan of rectification should any contraventions occur.

COVID-19 relief available	Examples how superannuation laws could have been breached
SMSF residency relief	If SMSF trustees were stranded overseas due to COVID-19 and this caused them to be out of Australia for more than two years, this may have affected the funds residency status for tax purposes.
Rental relief	Rental relief provided by a SMSF to a tenant in the form of a reduction, waiver or deferral may have breached the superannuation laws.
Loan repayment relief	The superannuation laws could have been breached where: • The SMSF was the lender and provided loan relief to a related or unrelated party, or • Where the SMSF was the borrower and received relief due to the financial impacts of COVID-19.
In-house asset relief	Where an SMSF exceeded the 5% in-house asset threshold at 30 June of a financial year due to the financial impacts of COVID-19 and could not execute a plan by 30 June of the following financial year to reduce the market value of the fund's in-house assets to below 5% because: • The market has not recovered in some areas, or • It may be unnecessary to implement the plan as the market has recovered.

Speak to your financial adviser for more information.
Source: Butler Settineri

Are life insurance pay outs taxed?

Life insurance can provide a crucial safety net for your family and loved ones, but is it subject to tax? This quick guide will help clear things up.

When considering **life insurance** and tax, there are two key questions. The first is whether taxes apply to life insurance pay-outs or benefits, and the second is whether life insurance premiums can be tax deductible. We'll start by briefly outlining the four main types of life insurance.

What are the different types of life insurance?

Life insurance (in case of death)

Also known as term life insurance, this type of insurance can pay out a lump sum to your designated beneficiaries (typically a spouse or children), in the case of your death. Some policies will provide an early pay-out if you are living with a serious terminal illness.

Total permanent disability (TPD) insurance

TPD insurance can pay out if you suffer an illness or injury that prevents you from working in any capacity. Benefits are usually made available to yourself and any beneficiaries in a lump sum, which can often help with rehabilitation.

Critical illness insurance

Critical illness insurance can pay out if you suffer a serious medical event or illness. This might include things like a heart attack, stroke or paralysis. It's often used to help pay for medical treatment, rehabilitation and the road to recovery.

Income protection insurance

This type of insurance can provide a benefit – often made up of monthly instalments – in case you're unable to work due to sickness or injury.

Are life insurance benefits (pay-outs) taxed?

Life insurance benefits are often tax-free, particularly when they are to a financial dependent – this could be your spouse or child. This is typically true for life insurance (in case of death) as well as critical illness insurance and total permanent disability insurance. However, pay outs made under income protection insurance are unlikely to be tax free, and are often taxed on a monthly basis.

When naming an insurance beneficiary, you will need to check your policy to establish who counts as a financial dependent. Spouses are commonly accepted, but there are more restrictions around children over the age of 18, who are often not regarded as financial dependents when it comes to receiving a lump sum. If life insurance is purchased through a super fund, the benefits will be paid to the trustee. Now to answer whether life insurance premiums (monthly or annual fees), can be deducted from your tax.

Which types of life insurance are tax-deductible?

Generally:

- Life insurance, critical illness and TPD insurance purchased outside your super are not tax deductible.
- TPD insurance purchased within your super is tax deductible.

Income protection insurance is usually tax deductible regardless of how you purchased

Is life insurance tax deductible when obtained through of superannuation?

According to the ATO, the answer is no. Life insurance taken out via super funds in not tax deductible. However, there is an exception to be explored for those with a Self Managed Super Fund. If you have a Self Managed Super Fund, you may be able to tax deduct your life insurance premiums, and it is best to discuss your options with your financial adviser.

Is life insurance tax deductible if I get it outside of superannuation?

Again, the answer here is typically no. Life insurance against death, TPD or critical illness isn't tax deductible, even if purchased outside superannuation. One notable exception here is income protection insurance if purchased outside your super fund. This is because income protection insurance premiums are directly linked to your income. Source: TAL

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

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