THE CONTRIBUTION STRATEGY LANDSCAPE IN 2020

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Meg is the Managing Director of SMSF specialist firm Heffron. She is one of the few actuaries to work in all areas of SMSF practice, having worked exclusively in SMSFs since 1998. Meg's passion is using her technical knowledge about SMSFs to provide practical solutions for accountants and advisers to help their clients and grow their businesses, and tangible expertise for trustees. She is often a proactive and practical voice in a sea of noise around super and SMSFs. Meg was a founding member of the Actuaries Institute Self-Managed Superannuation committee and is a regular speaker at professional development events for accountants, lawyers and financial planners.

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2020 Contribution strategies

Is there anything to see here?

- Catch up concessional contributions
- Total Super Balance and contributions
- Work test exempt contributions
- Downsizer contributions

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CATCH UP CONCESSIONAL CONTRIBUTIONS

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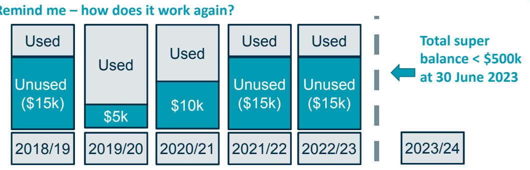
Catch up concessional contributions

Remind me – how does it work again?



CC Cap for 2023/24:
2023/24 ordinary cap : $25k
Unused cap (previous 5 years) : $60k
$85k

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Catch up concessional contributions

But some important points to remember

Always use the "current year cap" first

Much more useful now "everyone" can claim a personal tax deduction for contributions

No requirement to wait for 5 years – might be very useful incrementally

Not ***only*** for people returning to work after time out

Even people who couldn't make contributions in 2018/19 had concessional caps

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Catch up concessional contributions

Unusual case 1 : Child reaching adulthood

William & Catherine just sold the family business. Large capital gain in their family trust

After all the best tax planning, facing 30% tax on around $140,000 of this (after discounting etc)

Charlotte turned 18 in November 2019 – not surprisingly, has no super

Trapping $42.5k in super at 18. No-one likes that!
But could withdraw $12.75k under FHSS

Trust distribution to Charlotte - $140,000 taxable gains + Charlotte makes personal super contribution of $50k + Charlotte claims a personal tax deduction of $50k for contribution

End result:

- $90k taxed at normal marginal rates (< 30%)
- $50k taxed at 15% (saves family at least $7,500)

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Catch up concessional contributions

Unusual case 1 : Child reaching adulthood. The key points

Charlotte had a cap last year even though she couldn't make concessional contributions

Once we get to 2023/24, every minor will enter adulthood with $125k carried forward

Very occasionally, this will be handy. And when it is, it will be ***very*** handy!

Trapping $42.5k in super at 18. No-one likes that!
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Catch up concessional contributions

Unusual case 2 : Dealing with reserves

Liz has an account-based pension ($500,000). Phil has just died. Was receiving a lifetime (non reversionary) pension. Reserves leftover : $300,000.

How would we normally get rid of the reserve? One approach:

- 5% to Liz each year (approx. $25k in first year and growing)
- Nothing counts towards her concessional cap
- By June 2023, likely to have reduced reserves to $200k, Liz's balance around $600,000

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Catch up concessional contributions

Unusual case 2 : Dealing with reserves

What about, at June 2023:

Remember:
Liz's balance : $600k (accum + pension)
Reserves : 200k (still a problem)

Eligible for the catch up concessional contribution rules in 2023/24

Large withdrawal from Liz's accounts (below $500k at 30 June 2023) + Allocate $150k reserves in July 2023 (5 years' carried forward plus 2023/24 cap) + Even consider allocating more (remaining $50k) – will be over concessional cap but does that matter?

Taxed at marginal rates but with a 15% tax offset. What if Liz has no other income?

Catch up concessional contributions

The case relevant for many high earning clients

Moving through life and up the salary scale. *Eventually* able to make extra super contributions

Year	2018/19	2019/20	2020/21	2021/22	2022/23
CCs	$17,100	$18,050	$19,000	$19,950	$20,900
Unused cap	$\boxed{\$7,900}$	$6,950	$6,000	$5,050	$4,100

Just enough to use some or all of amount carried forward from 2018/19 ($25,000 + $7,900)

TOTAL SUPER BALANCE & CONTRIBUTION CAPS

Total Superannuation Balance

A very important number which drives

Non-concessional contribution cap & bring forward opportunities

Ability to use catch up concessional contributions

Eligibility for work test exempt contributions

Ability to segregate (for tax purposes)

Hence many contribution strategies involve understanding and managing the Total Superannuation Balance at the right time.

So what do we need to remember?

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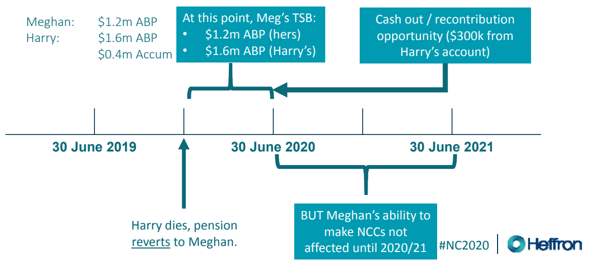
Total Superannuation Balance

When does an inherited pension count towards TSB?



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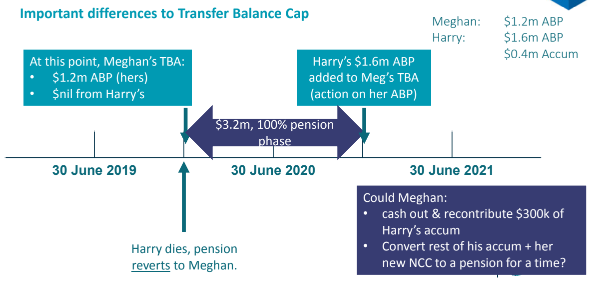
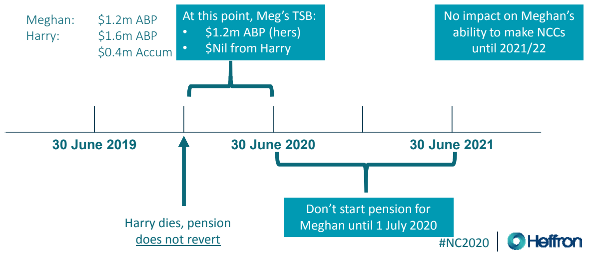
Total Superannuation Balance

Important differences to Transfer Balance Cap



Total Superannuation Balance

What if the pension was non reversionary?



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Total Superannuation Balance

How to reduce a Total Superannuation Balance at 30 June

Allow for things not always included in financial statements:

- deferred tax
- realisation costs
- valuation that would apply if had to sell the asset immediately

(remember – can report a special value for this rather than amount on member statements)

Split previous year's contributions to a spouse

Configure this year's NCCs differently

Think about withdrawing in June enough to creep under a threshold if needed

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WORK TEST EXEMPT CONTRIBUTIONS

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Work test exempt contributions

We know the basics

Opportunity to contribute for an extra year:

- Over 65 and haven't met work test this year
- But did meet it last year
- TSB < $300,000 at previous 30 June
- Comply with all the other contribution rules

First application is 2019/20 (eg 68 now, don't meet work test but met it in 2018/19)

Only available once

Are you thinking that the TSB requirement makes it pretty niche?

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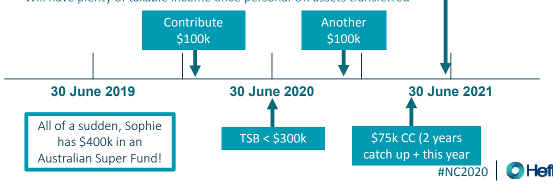
Work test exempt contributions

It is niche – but can certainly be epic

Sophie (68): no super – recently arrived from the UK
Worked during 2019/20 (meets work test)
Won't meet work test in 2020/21
Will have plenty of taxable income once personal UK assets transferred



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DOWNSIZER CONTRIBUTIONS

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Downsizer contributions

We know basically what they are:

Special contribution opportunity for over 65s on sale of a dwelling

- At least partially CGT exempt (main residence exemption)
- Owned personally (incl with or by spouse) for 10+ years

Only available once (one dwelling)

Max of $300k per person (capped by proceeds of sale)

No rules about maximum age, balance size

Elections & timeframes

Downsizer contributions

Opportunities lie where there are no rules

No requirement that contribution is:

In proportion to ownership interest →	All owned by one member of a couple? Both have a downsizer opportunity
Limited to CGT exempt % of property →	Sale proceeds $1m but only 10% of capital gain exempt (investment property for some of the time) – downsizer still $300k per person
Intended to add more to superannuation →	Could just be used as a means of re-contributing after 65

Downsizer contributions

Opportunities lie where there are no rules

No requirement that a couple have:

Been together for 10+ years →	Just needs to have been owned by one of them for 10+ years and must have been main residence for each of them at some point
Lived in property for 10+ years →	Could have been an investment property for some of the 10+ years
Both turned 65 →	Only contributor needs to be over 65
Been over 65 when property contract signed →	Only when actually make the contribution (within 90 days of settlement)

Downsizer contributions

Opportunities lie where there are no rules

No requirement that the property:

Is sold in full	Just need to sell an ownership interest (a share would do)
Is sold to a third party	Could be sold / transferred to a related party
Is a traditional house or unit	Could be a retirement village unit (ownership interest includes right to occupy) – check legal structure
Always had a home on it	Vacant land, build, live in it and sell
Has always been the same as it is now	Could subdivide current home (doesn't re-set 10 years), sell the part with the home on it

Downsizer contributions

And what about converting them to pensions?

Don't increase $1.6m Transfer Balance Cap – hence may not be possible to increase pensions

But does that mean they absolutely can't be converted to a pension? May want to:

- Withdrawing minimum from pension
- Taking extra lump sums from accumulation account
- All other super is a taxable
- Would ideally like the downsizer in a pension

Charles (70) has $1.7m in an account-based pension and $500k in an accumulation account (both 100% taxable component). He is about to sell his home & will be making a $300k downsizer.

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Downsizer contributions

An Approach for Charles

Convert Accum to ABP 2 — ABP 1 ($1.7m) — ABP 2 ($0.5m) — This will create an excess. And a min pension payment will be required.

Make the downsizer — ABP 1 ($1.7m) — ABP 2 ($0.5m) — Downsizer (Accum. $0.3m)

Convert downsizer to ABP 3 — ABP 1 ($1.7m) — ABP 2 ($0.5m) — ABP 3 ($0.3m, 100% tax free)

Roll back to accumulation:

- All of ABP 2 ($0.5m)
- Part of ABP 1 ($0.3m plus a bit to allow for earnings on the excess)

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Downsizer contributions

Mixing up the tax components

Watch out for:

- Will create an excess – but modest impact of the period is short
- Is ABP1 exempt for CSHC purposes (pre- January 2015)? ABP 3 is not
- Need extra lump sums in the future? Still fine from accumulation account (100% taxable)

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Contributions landscape 2020

So is there anything to see here?

Always!

Catch up concessional contributions – may be relevant for more clients than you think

Total Superannuation Balance – requires careful thought and management

Work test exempt contributions – niche but powerful

Downsizer contributions – don't underestimate the opportunity!

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