

CPI LEADS TO ADDITIONAL SUPER OPPORTUNITIES

On 1 July 2017 we saw a raft of changes and limitations imposed on superannuation brought in by the then Turnbull Government. The most significant change was the \$1.6m transfer cap when funds are moved into a superannuation retirement pension phase. This figure was to be indexed by \$100,000 increments in line with the Consumer Price Index and for the first time since the introduction of these modifications the transfer balance cap will be indexed to \$1.7mil from 1 July 2021.

What does that mean?

From 1 July 2021 you may be able to transfer more money in to the tax free pension phase. Sounds simple enough but when it comes to superannuation rules, nothing is quite that simple. While everyone started with the same cap limits, being \$1.6m, going forward everyone will have their own individual cap limits and the new rules will not apply to everyone equally.

Who benefits from the new rules?

The individuals who will benefit the most are those who have yet to commence a pension. Individuals who meet a condition of release from 1 July can commence a pension utilising the entire cap of \$1.7m. Unfortunately, those who commenced a pension maximising their existing cap of \$1.6m prior to 1 July 2021 are locked out of adding further monies to their existing pensions. For everyone else who is in receipt of a pension currently but have not maxed out their cap limits, it's complicated. In these circumstances, indexation will apply proportionally.

How does it work?

When an individual transfers money into the retirement pension phase, the amount counts towards their individual transfer balance cap. It does not matter how many different pension accounts you may have with different providers, it is all reported and monitored by the ATO. Your remaining transfer balance cap is determined by the transfer balance cap at the time of the initial transfer into pension phase less the amount transferred. Your cap is unaffected by any market growth or reduction of your portfolio.

Example 1

Kaya commenced an account based pension on 1 July 2020 with a balance of \$1.6mil, utilising 100% of his pension transfer cap. During the year his balance dropped to \$1.5mil as a result of market downturn and significant pension withdrawals he made to assist his family during COVID-19. As he maximised his pension transfer balance cap of \$1.6mil on 1 July 2020 he is unable to transfer additional funds to the pension phase regardless of the indexation from 1 July 2021 or the drop in market value.

Example 2

Aaliyah commenced an account based pension on 30 September 2019 with \$800,000 balance utilising 50% of her \$1.6mil cap. On 1 July when the cap is indexed by \$100,000 to \$1.7mil, Aaliyah's new remaining transfer balance cap will be \$850,000 $(\$100,000 * 50\%) + \$1.6m$.

Your Transfer Balance cap can be located on the myGov portal.

What else has increased?

The general superannuation balance cap will also increase to \$1.7mil from 1 July. Currently, if you have a combined superannuation balance of \$1.6mil or more (based on your member balance on 30 June in the previous financial year), you are unable to make additional non-concessional contributions. From 1 July 2021 this limit will increase to \$1.7mil allowing those individuals who have maxed out or near their maximum member balances potentially add extra to the tax effective environment (age and work test permitting).

At the time of writing this, there have been no announcements made to the indexation of concessional and non-concessional contributions however, it is expected that the concessional contributions will be indexed in line with Average Weekly Ordinary Times Earnings that is by \$2,500 to \$27,500 and non-concessional contributions by \$10,000 to \$110,000 annually and \$330,000 bring forward rule.

The indexation may be good news for some and complicated for others as it applies differently for everyone. Should you wish to discuss your transfer balance cap further please contact your Bell Potter adviser.



Ayten Ozder

Technical Financial Adviser
Bell Potter Securities

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- Structuring your existing assets appropriately
- Identifying your approach to investment and your appetite for risk, and
- Reviewing your current superannuation arrangements.

To create a tailored investment plan based on your needs and objectives call your adviser or 1300 0 BELLS (1300 0 23357).

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