SuperGuide members Q&A: March 2024

Thursday 21st March 2024

Welcome

SUPERGUIDE | WEBINAR

Presenter

Garth McNally, GM Super Consulting

Garth has worked in the Australian Superannuation industry for over 25 years with a specific focus on self-managed super funds. He provides ongoing support and training to individuals as well as to professionals working in the superannuation area, including advisers, accountants and lawyers.

Garth is a regular contributor to industry publications and to the leading professional bodies including Chartered Accountants Australia & New Zealand (CA ANZ) & CPA Australia (CPA).

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GM Super Consulting

IMPORTANT

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In particular, you should seek independent financial advice prior to making any investment decision.

You should consider the appropriateness of this information having regard to your individual situation and seek taxation advice from a registered tax agent before making any decision based on the content of this presentation.

Any examples & calculations within this presentation are provided for illustrative purposes only. They should not be relied on.

Attendance at this webinar and/or viewing the content provided, is considered as acknowledgement, acceptance and agreement to this Disclaimer and the contents contained within.

Questions

1. Bring forward rule for NCCs – Aly
2. Moving to pension phase – Sally T
3. Transfer balance account affect when combining pensions – Larry
4. Reporting requirements for commencing a pension – Puvan
5. Pension balances and transfer balance cap limits – William L
6. Contribution reserving strategy – Peter G
7. Total super balance and further contributions – Arasan
8. Age limits for contributions – Ivan A
9. Moving to part pension phase – John C

Question 1

Hi Garth, love your webinars!

I have maxed out my NC contributions to my SMSF ($330K in July 2023).

Based on the 3 year bring forward rule, when is the earliest I can make new NC contributions?

I am way under the TSB.

Thank you!

Aly

What you need to consider

Non-concessional Contributions

- Annual limit of $110,000* applies in 2023/2024 financial year
- If you exceed the annual cap, you automatically trigger the "3 year bring forward rules"
- This allows up to $330,000 in NCC to be contributed across the current and next 2 financial years (3 years in total) WITHOUT creating excess contributions
- Once triggered, any indexation or increase to the NCC cap that occurs will not be available until the current 3-year period ceases

* The annual NCC will increase to $120,000 from 1 July 2024. Therefore the 3-year bring forward amount will increase to $360,000

What you need to consider

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Eligibility criteria

- Must be under age 75
- Must have a total super balance below the general transfer balance cap.
    - Currently $1.9M
    - 1 July 2021 – 1 July 2023: $1.7M

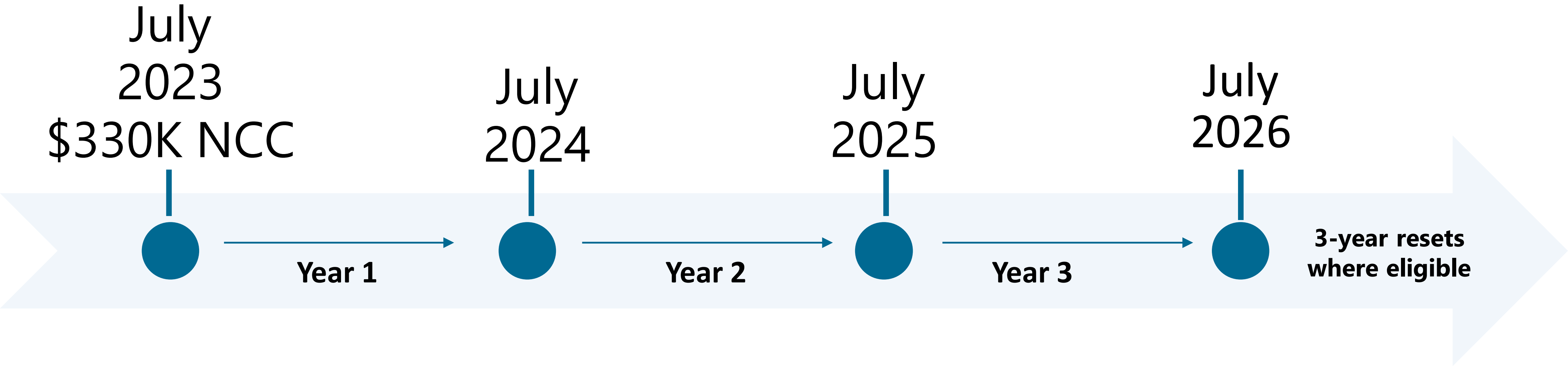
* The annual NCC will increase to $120,000 from 1 July 2024. Therefore the 3-year bring forward amount will increase to $360,000

What you need to consider

July
2023
$330K NCC

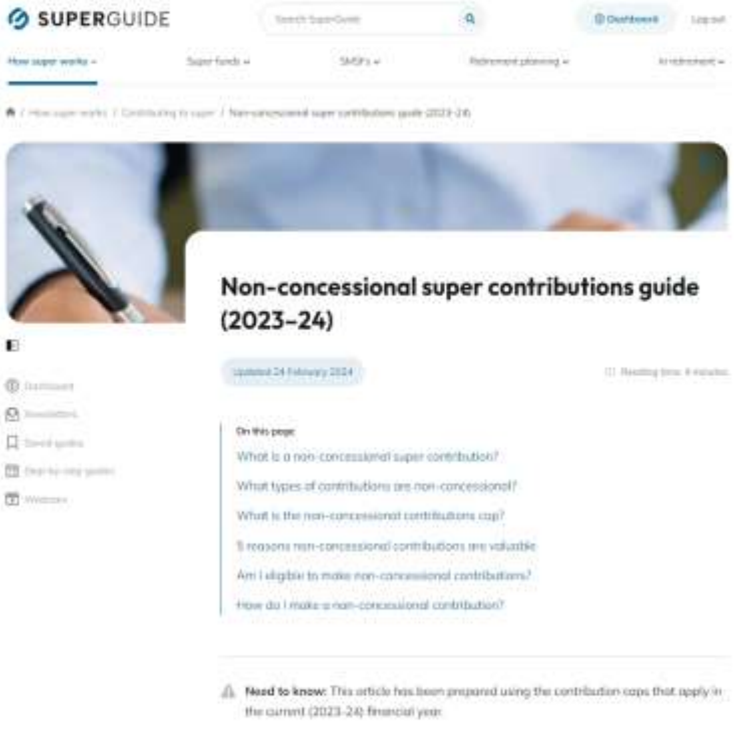
1 July 2023 - NCC of $330k. Exceeds the annual NCC cap so automatically triggers the 3 year bring forward rule.

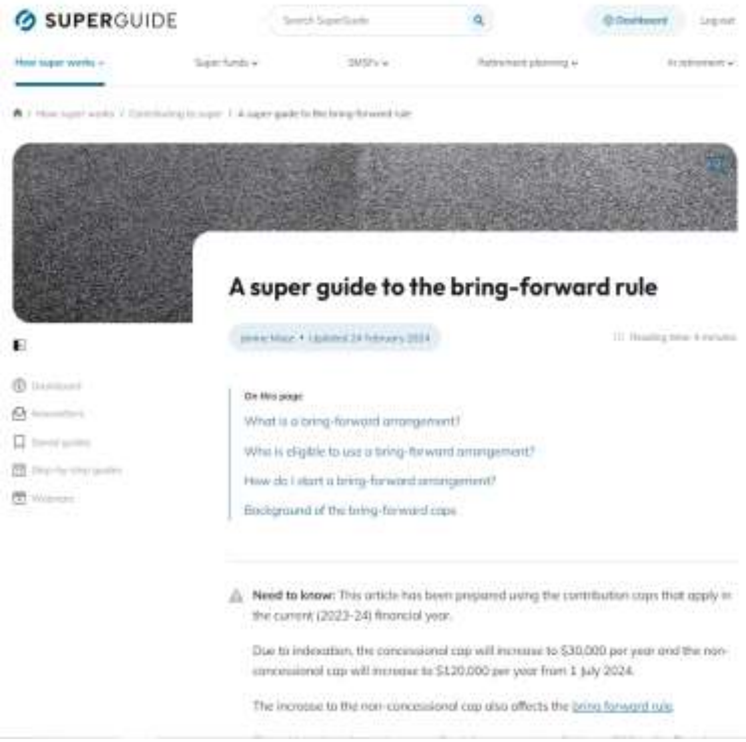
What you need to consider

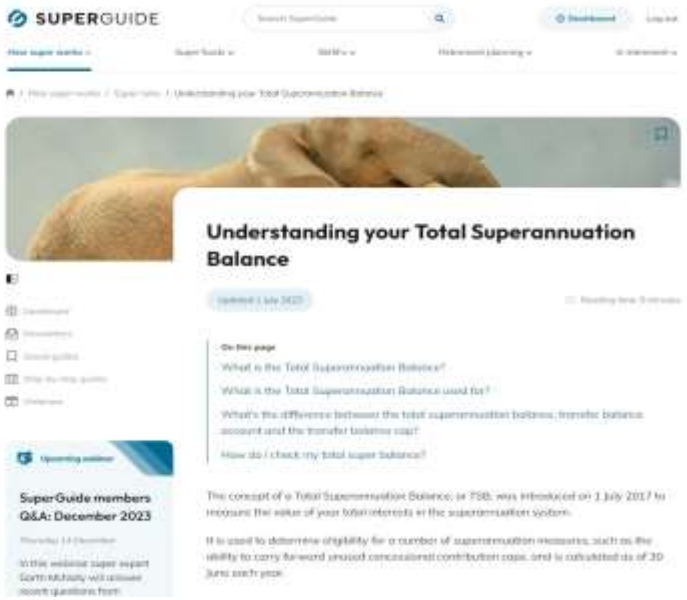


1 July 2023 - NCC of $330k. Exceeds the annual NCC cap so automatically triggers the 3 year bring forward rule.

Resources







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Question 2

Hello. I have two super funds, and being in my 60s and retired, believe I'm eligible to change from accumulation to pension.

If I do this, does this need to happen for both funds, or can I choose to have one fund with one account in pension/drawdown mode, and have the second fund with one account remaining in accumulation mode.

I am well below the transfer balance cap.

Thank you for your help, and of course for the wonderful information offered to readers.

Sally

Issues to consider

In most cases, you can choose how much of your accumulation balances is used to commence a pension.

- You don't have to use all your superannuation benefits to start a pension.
- You can leave some of your benefits in the accumulation phase.

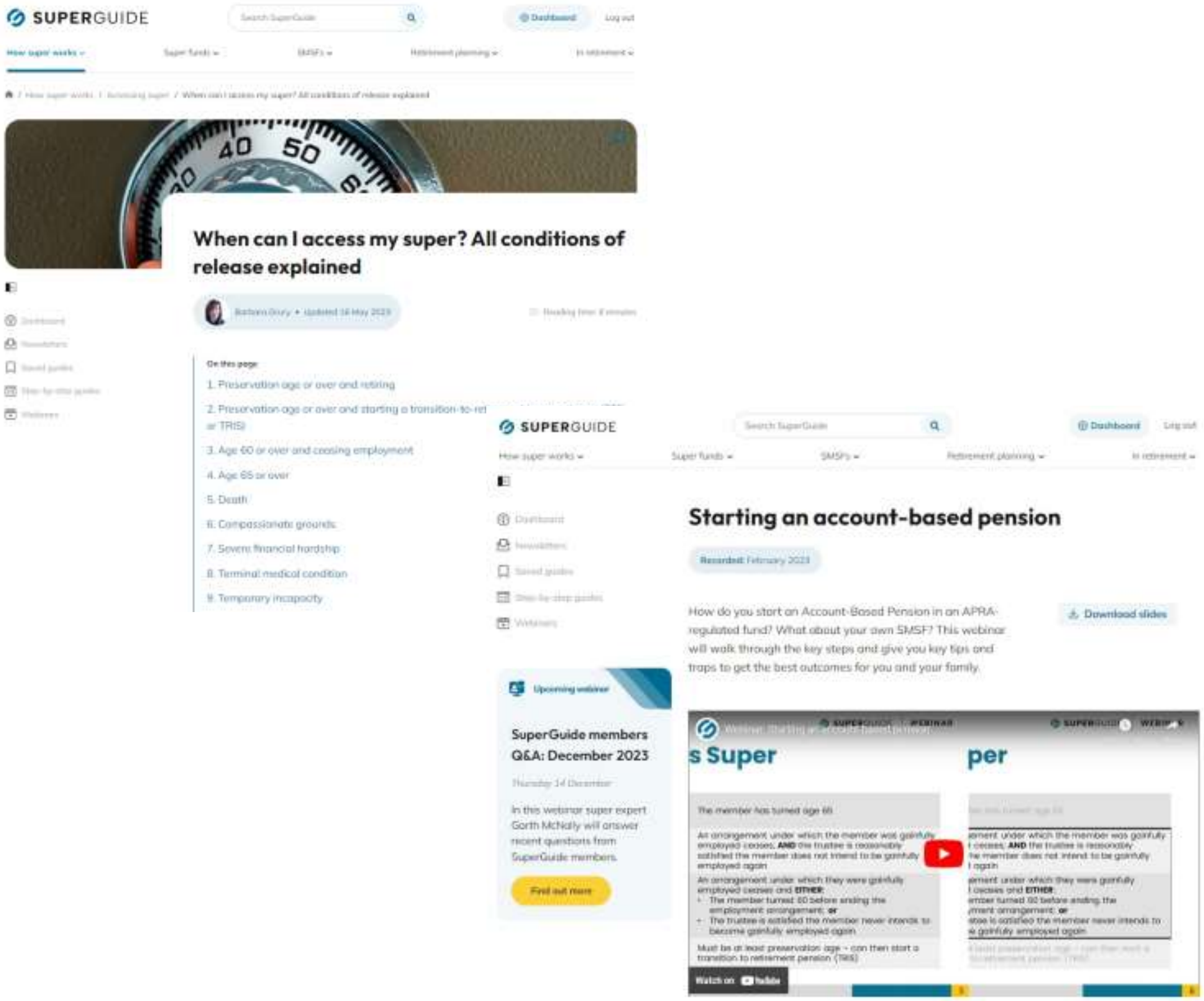
This same principle applies where you have more than 1 superfund.

- You can commence a pension in 1 fund and leave the other in accumulation phase.
- You could commence a pension in 1 fund with PART of your benefits and leave the rest in accumulation phase.

Important

Some Superfunds may have fund specific rules or requirements that need to be adhered to, so it is always best to check with your specific fund and know what it allows and/or requires.

Resources



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Question 3

If you have more than one super fund that are all in pension phase, then as I understand it, if you want to combine them all into a single pension fund (to reduce fees) you first need to bring them back into accumulation phase.

My question is this: After you combine those smaller funds into one larger super fund in accumulation phase and then proceed to transition it back into a pension phase fund, will that new larger amount being transitioned into a new pension phase affect your Super Balance Cap (currently $1.9 million) even though all you are doing is aggregating existing funds and technically not adding any new funds into pension phase?

Larry

Unpacking your query

Transfer Balance Cap → Personal Transfer Balance Cap → Transfer Balance Account

This is the limit on the amount that can be moved into the "tax-free" earnings stage of Super; "Retirement Phase"

Unpacking your query

Transfer Balance Cap → Personal Transfer Balance Cap → Transfer Balance Account

This is your own personal limit on the amount that YOU can move into the “tax-free” earnings stage of Super; “Retirement Phase”. It takes into account your own position.

Unpacking your query

Transfer Balance Cap → Personal Transfer Balance Cap → Transfer Balance Account

This is your **personal <u>record</u>** of ALL transactions that affect your transfer balance cap; **commencement of retirement phase income streams**, **ceasing retirement phase income streams**, lump-sums or commutations from a retirement phase income stream, certain LRBA repayments etc.

Your TBA is maintained by the ATO and can be viewed on myGov.

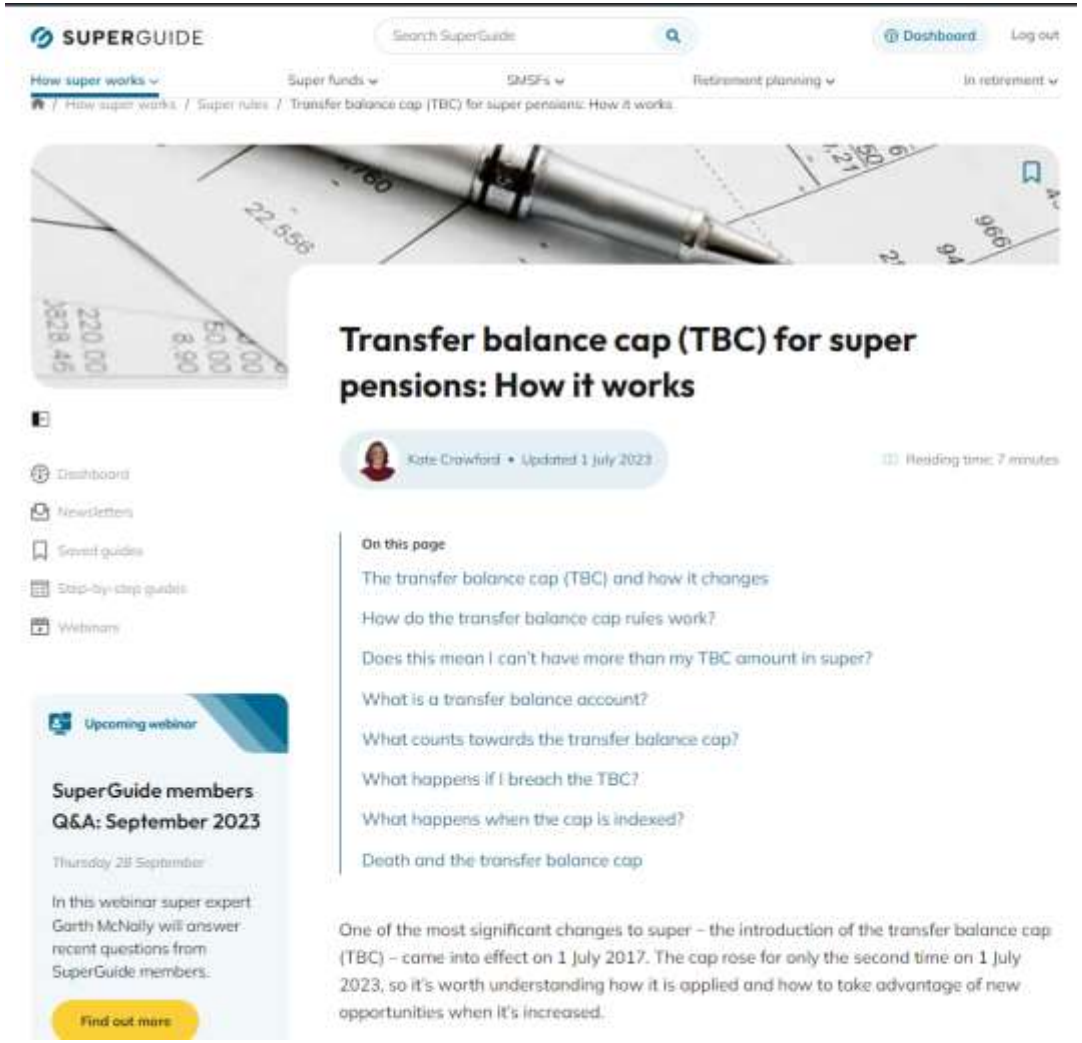
Issues to consider

Sample: Personal Transfer Balance Account				
Date	**Transaction**	**Debit**	**Credit**	**Transfer balance**
1 Jul 2023	Superannuation income stream commences	$0	$1,700,000	$1,700,000
2 Aug 2023	Member commutes (ceases) part of pension	$200,000	$0	$1,500,000
20 Sep 2023	Superannuation income stream commences	$0	$200,000	$1,700,000

The ceasing / stopping / commuting of a pension creates a DEBIT in your own personal TBA.

This then allows you to recommence another pension with the same amount of money without being "double counted".

Resources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How super works
Super funds
SMSFs
Retirement planning
In retirement
Transfer balance cap (TBC) for super pensions: How it works
Kate Crawford • Updated 1 July 2023
On this page
The transfer balance cap (TBC) and how it changes
How do the transfer balance cap rules work?
Does this mean I can't have more than my TBC amount in super?
What is a transfer balance account?
What counts towards the transfer balance cap?
What happens if I breach the TBC?
What happens when the cap is indexed?
Death and the transfer balance cap
One of the most significant changes to super – the introduction of the transfer balance cap (TBC) – came into effect on 1 July 2017. The cap rose for only the second time on 1 July 2023, so it's worth understanding how it is applied and how to take advantage of new opportunities when it's increased.
Upcoming webinar
SuperGuide members Q&A: September 2023
In this webinar super expert Garth McNally will answer recent questions from SuperGuide members.
Find out more

Question 4

I am keen to understand how to move one member of an SMSF from accumulation phase to a benefit paying phase, while the remaining members continue in the accumulation phase.

So, my specific questions are:

1. Does the ATO need to be informed of the changed status of the member going from accumulation to benefit paying phase? If so, how is the fund to inform the ATO?
2. I have seen literature that suggests that an actuarial certificate is required to achieve (1). Why is this the case and what will the certificate cover?
3. What other parties need to be informed of the change in the members status?

Puvan

Issues to consider

Prior to commencing a pension in a SMSF, always refer to the trust deed of your fund for any specific rules or requirements

Issues to consider

Prior to commencing a pension in a SMSF, always refer to the trust deed of your fund for any specific rules or requirements

Paperwork usually required - SMSF

1. Member request to start a pension / income stream:
   - Details of start date etc.
   - Details of commencement amount, specified amount, unspecific amount, with whole balance etc.
   - Details of pension payments required / frequency
   - Details of reversionary or non-reversionary
2. Trustee resolution to commence the requested pension
3. Trustee notification to member that pension has commenced
4. Provide a copy of the SMSF's Product Disclosure Statement (PDS) to the member

Issues to consider

Prior to commencing a pension in a SMSF, always refer to the trust deed of your fund for any specific rules or requirements

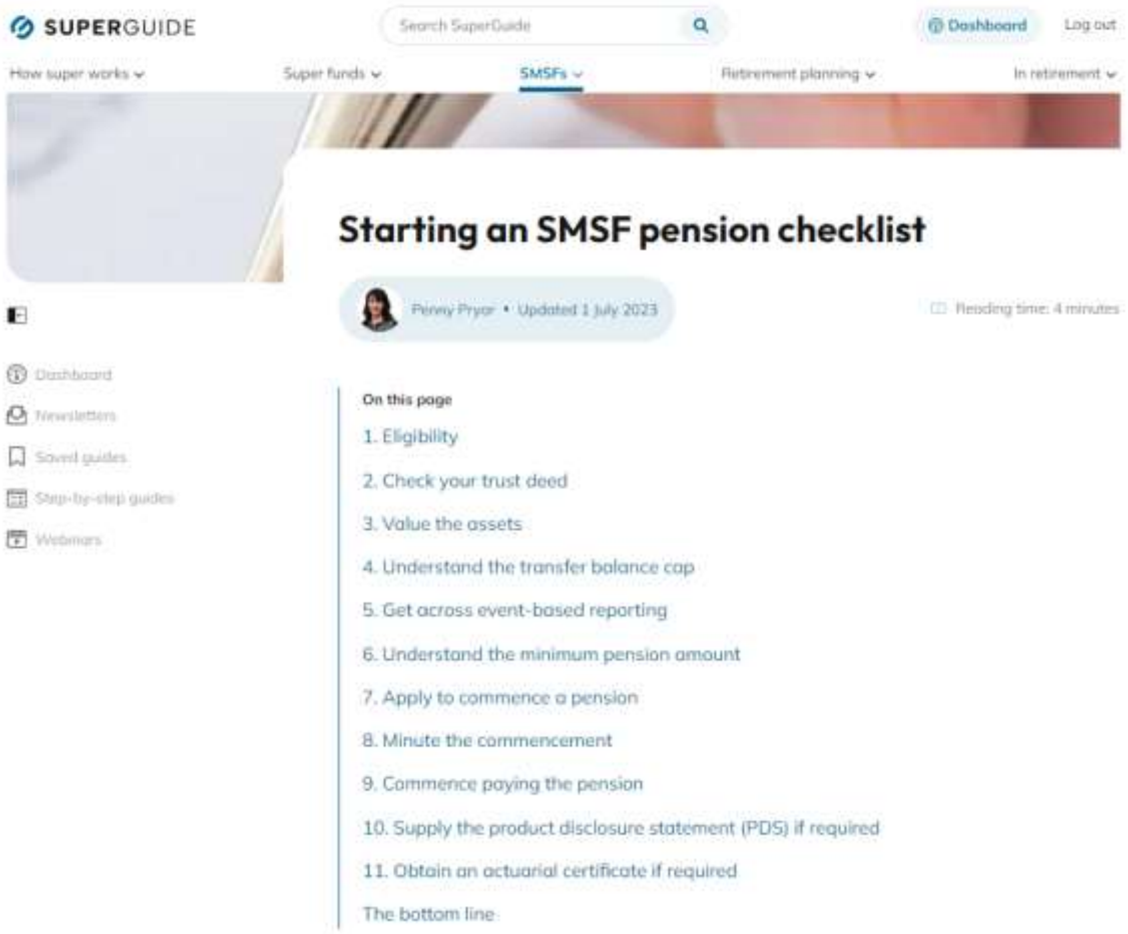
Paperwork usually required - Other

1. Complete a transfer balance account report (TBAR) which is then lodged with the ATO to show that a retirement phase income stream has commenced and to track this pension start balance against your personal transfer balance account.
2. These TBARs need to be lodged quarterly; but only if a TBAR event occurs in that relevant quarter:
    - Starting a retirement phase income stream
    - Commuting / ceasing a retirement phase income stream
    - Etc.

Issues to consider

Review the checklist on the **SuperGuide** website.

There are specific details for each step.



Issues to consider

Actuarial certificates

A fund may need to obtain an actuarial certificate at the end of each financial year where it is paying retirement phase income streams. This certificate provides an independent assessment on how much of the fund's income relates to assets that are in pension phase (tax-free %) and how much relates to income that relates to assets in accumulation phase.

Without this, a SMSF may not be able to claim ECPI (exempt current pension income / tax free income) in the fund's annual return. The actuarial certificate is used to calculate the amount of ECPI which can be claimed.

Issues to consider

Actuarial certificates

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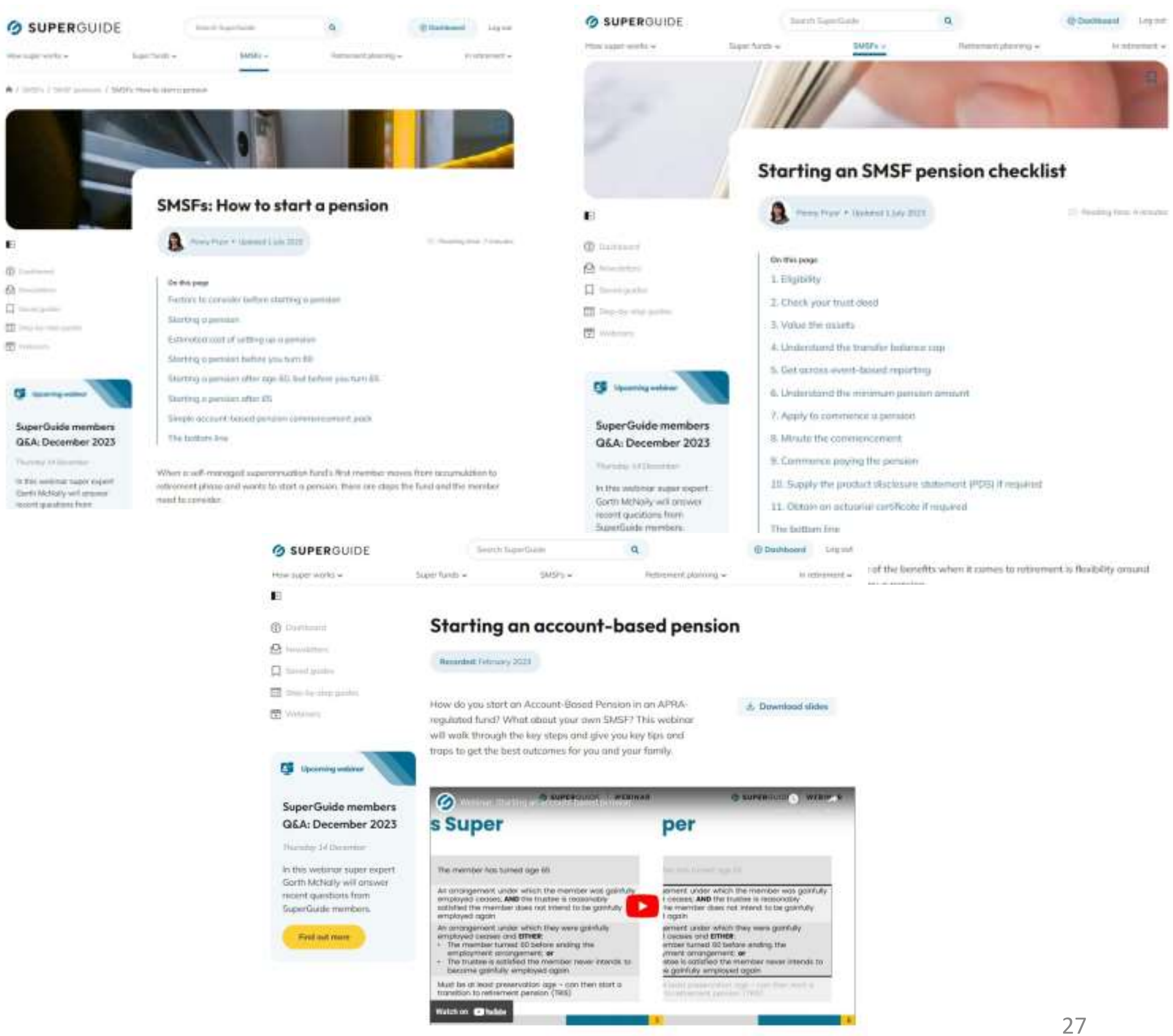
Without this, a SMSF may not be able to claim ECPI (exempt current pension income / tax free income) in the fund's annual return. The actuarial certificate is used to calculate the amount of ECPI which can be claimed.

In years gone by, SMSF's were able to pay other types of income streams that required an actuarial certificate to be obtained before they started to determine if the fund could meet the required pension amounts each year AND for other relevant calculations.

As SMSFs can now only commence account-based pensions (in most cases), this pre-commencement requirement no longer exists.

Resources


SUPERGUIDE
SMSFs: How to start a pension
Starting an SMSF pension checklist
1. Eligibility
2. Check your trust deed
3. Value the assets
4. Understand the transfer balance cap
5. Get across event-based reporting
6. Understand the minimum pension amount
7. Apply to commence a pension
8. Minute the commencement
9. Commence paying the pension
10. Supply the product disclosure statement (PDS) if required
11. Obtain an actuarial certificate if required
The bottom line
SuperGuide members Q&A: December 2023
Starting an account-based pension
Download slides
How do you start an Account-Based Pension in an APRA-regulated fund? What about your own SMSF? This webinar will walk through the key steps and give you key tips and traps to get the best outcomes for you and your family.
Find out more

Question 5

I am interested in the apparent loophole that allows a pension fund to go above the applicable cap. In my case $1.7 million.

On the ATO website it states that if your Total Super Balance on 30 June, the previous year is less than $1.48 million then non- Concessional contributions for the first year can be $330,000. Thus, effectively making your new total super balance $1.81 million i.e. greater than the $1.7m cap.

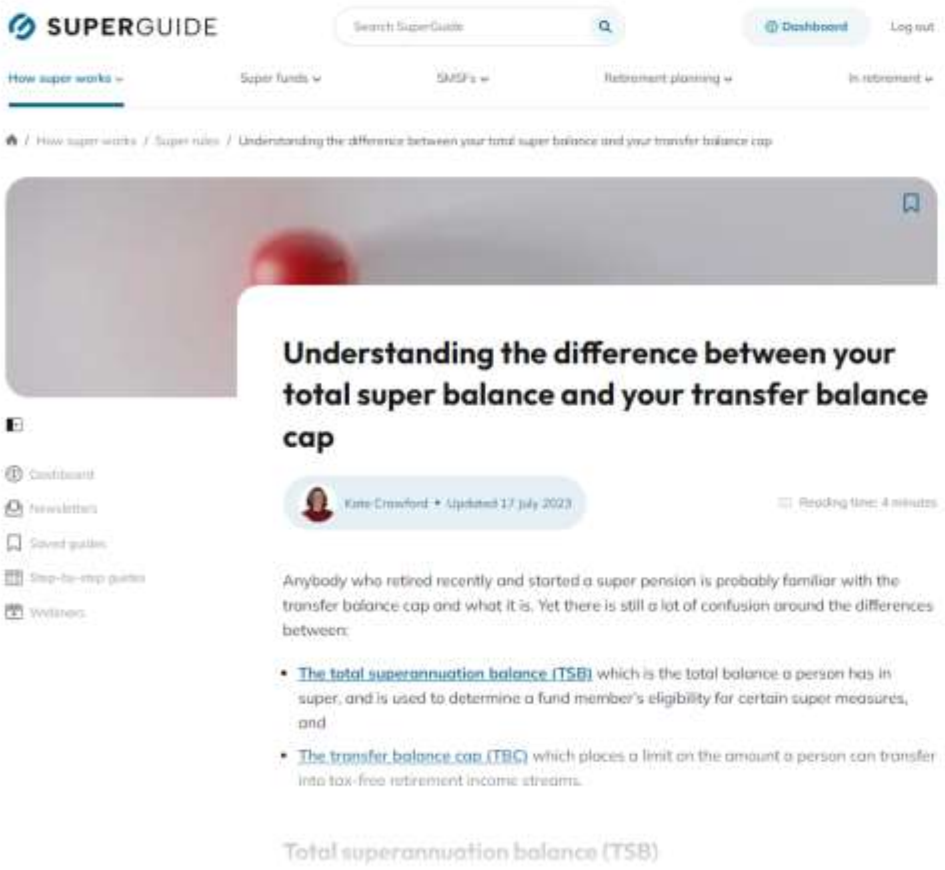
Can you explain any pitfalls in using this strategy to maximise funds in pension phase?

William L

Issues to consider

There is a KEY difference between:

- **Total Super Balance**, and
- **Transfer Balance Cap**

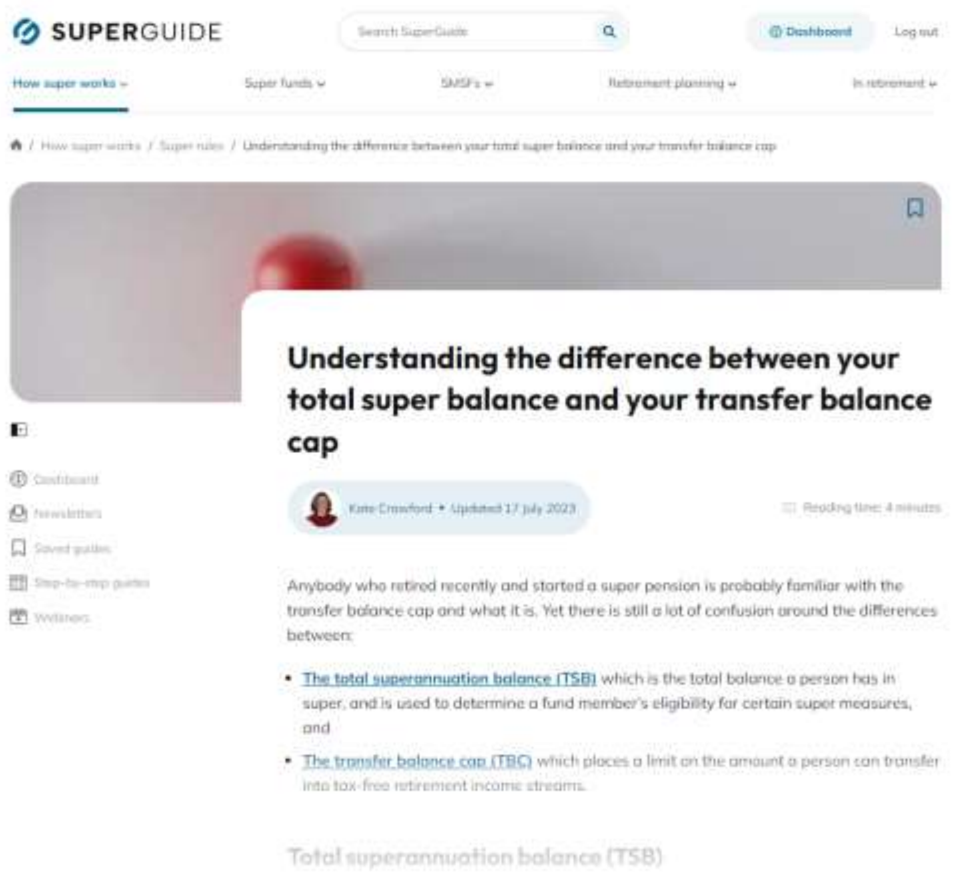


Issues to consider

There is a KEY difference between:

- **Total Super Balance**, and
- **Transfer Balance Cap**

Total Super Balance	
The total balance a person has in all their superannuation funds. It is used to determine a fund member's eligibility for certain super measures, like making non-concessional contributions, carry-forward concessional contributions.	

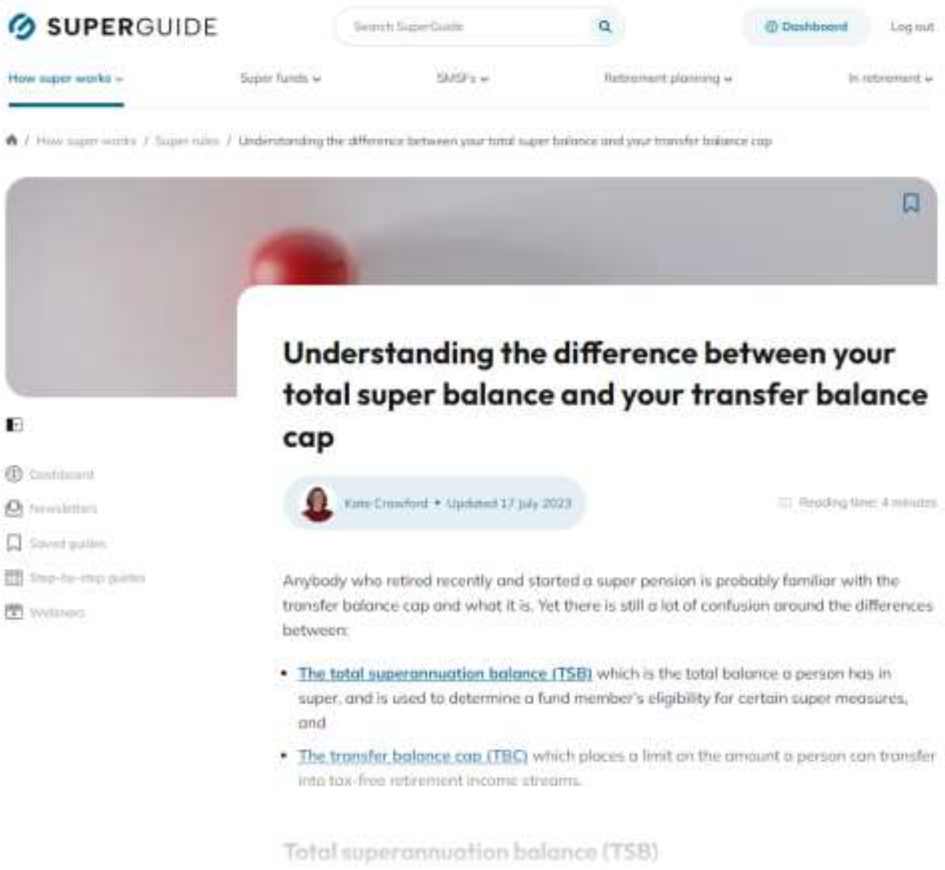


Issues to consider

There is a KEY difference between:

- **Total Super Balance**, and
- **Transfer Balance Cap**

	Transfer Balance Cap
	A limit on the amount a person can **transfer into** tax-free retirement income streams. This only limits the amount that can be used to **COMMENCE** retirement income streams. These pensions can grow above this cap.



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Other comments

- There are no real limits imposed on the total balances that can be held in your superannuation savings

In 2022, it was reported that the largest balance held within a SMSF was more than $540M

- There are limits imposed on the balances that can be **MOVED INTO** the "retirement phase" of superannuation, balances on which earnings are tax-free

This is referred to as the transfer balance cap and currently sits between $1.6 - $1.9m

- There are changes taking place from 1 July 2025 to apply an additional 15% tax on fund earnings that relate to member balances above $3M

This is referred to as Div 296 Tax

Other comments

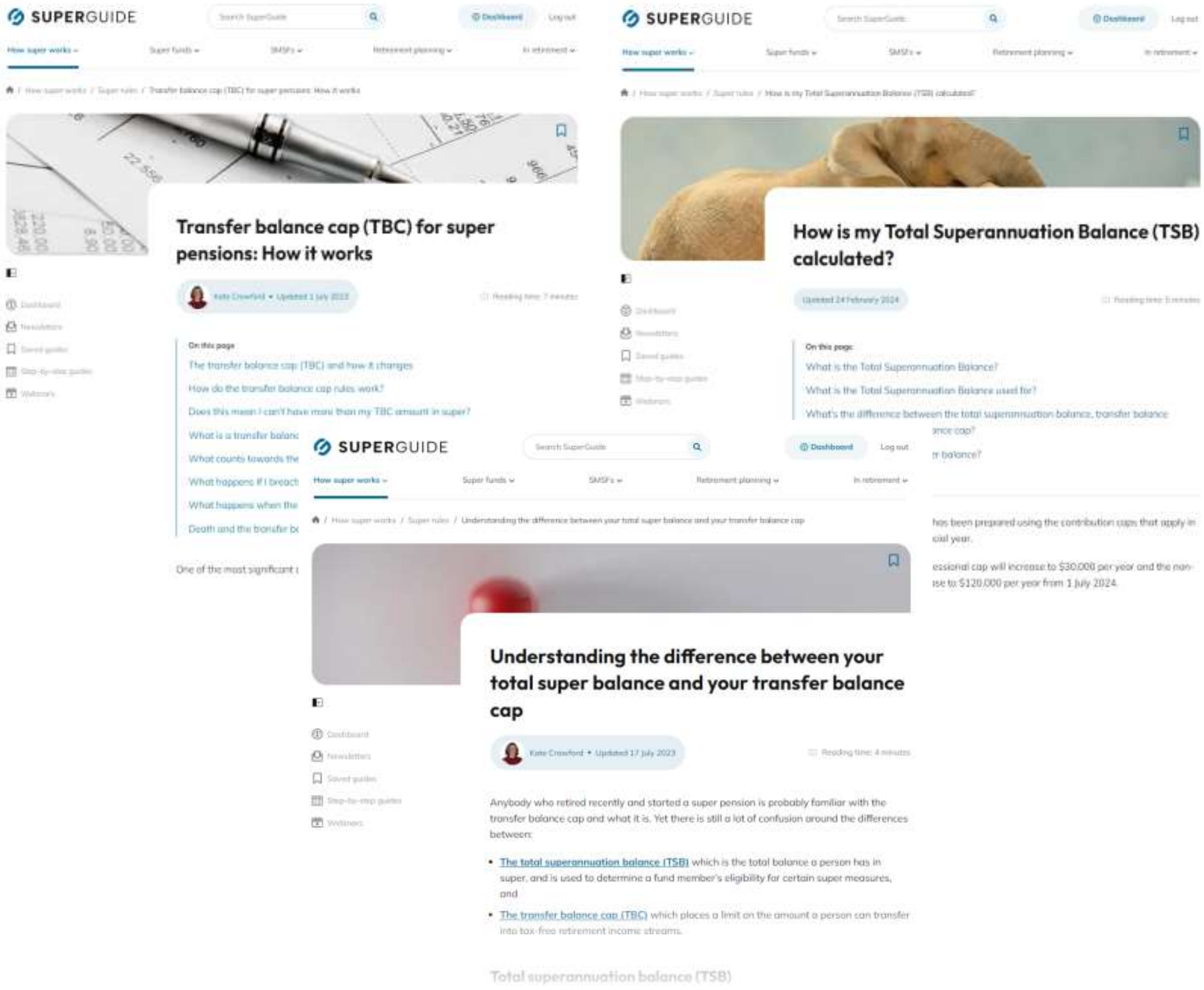
Important

- A pension balance can grow above the relevant transfer balance account after it has commenced; this IS ALLOWED and would not create an excess transfer balance account

- Earnings / losses on a pension DO NOT AFFECT the members transfer balance account

- Remember, the transfer balance cap only limits amounts that can be used to COMMENCE retirement phase income streams (pensions).

Resources


SUPERGUIDE
Transfer balance cap (TBC) for super pensions: How it works
How is my Total Superannuation Balance (TSB) calculated?
Understanding the difference between your total super balance and your transfer balance cap
Anybody who retired recently and started a super pension is probably familiar with the transfer balance cap and what it is. Yet there is still a lot of confusion around the differences between:
The total superannuation balance (TSB) which is the total balance a person has in super, and is used to determine a fund member's eligibility for certain super measures, and
The transfer balance cap (TBC) which places a limit on the amount a person can transfer into tax-free retirement income streams.
Total superannuation balance (TSB)

Question 6

I was planning to make a $55,000 payment into my SMSF by 15 June as a Contribution Reserving Strategy for myself and my wife.

With the Limits increasing to $30,000 per person from 1 July, can I make a $60,000 payment as Contribution Reserving instead of $55,000.

In summary, can I take advantage of the new limits with Contribution Reserving prior to 1 July?

Peter G

Issues to consider

Background

A contribution is made to a superfund but instead of being immediately “allocated” to the members account in the fund, it is held in a “reserve” or an “unallocated contributions account” for a short period of time.

At a later time, the contribution is then allocated to the member's account.

The Superannuation laws require contributions made to a SMSF to be allocated to a member within 28 days from the end of the month that the contribution is received.

Issues to consider

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The Superannuation laws require contributions made to a SMSF to be allocated to a member within 28 days from the end of the month that the contribution is received.

Initial Contribution Accepted

When the contribution is **RECEIVED** by the fund:

- The amount is included as assessable income for the fund in that year.
- Tax deductible to the contributor in that year
- Requires any work test rule to be met

Issues to consider

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Allocation of Contribution

When the contribution is **Allocated** to the member's account:

- Assessed against the members contribution cap in that financial year

Issues to consider

Background

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Allocation of Contribution

When the contribution is **<u>Allocated</u>** to the member's account:

- Assessed against the members contribution cap in that financial year

Issues to consider

Outcome

If carried out correctly & appropriately, you may be able to use a contribution reserving strategy in June 2024 to claim a larger tax deduction in the 2024 financial year.

This could allow up to $57,500 ($27,500 + $30,000) as a concessional contribution, assuming eligibility is met.

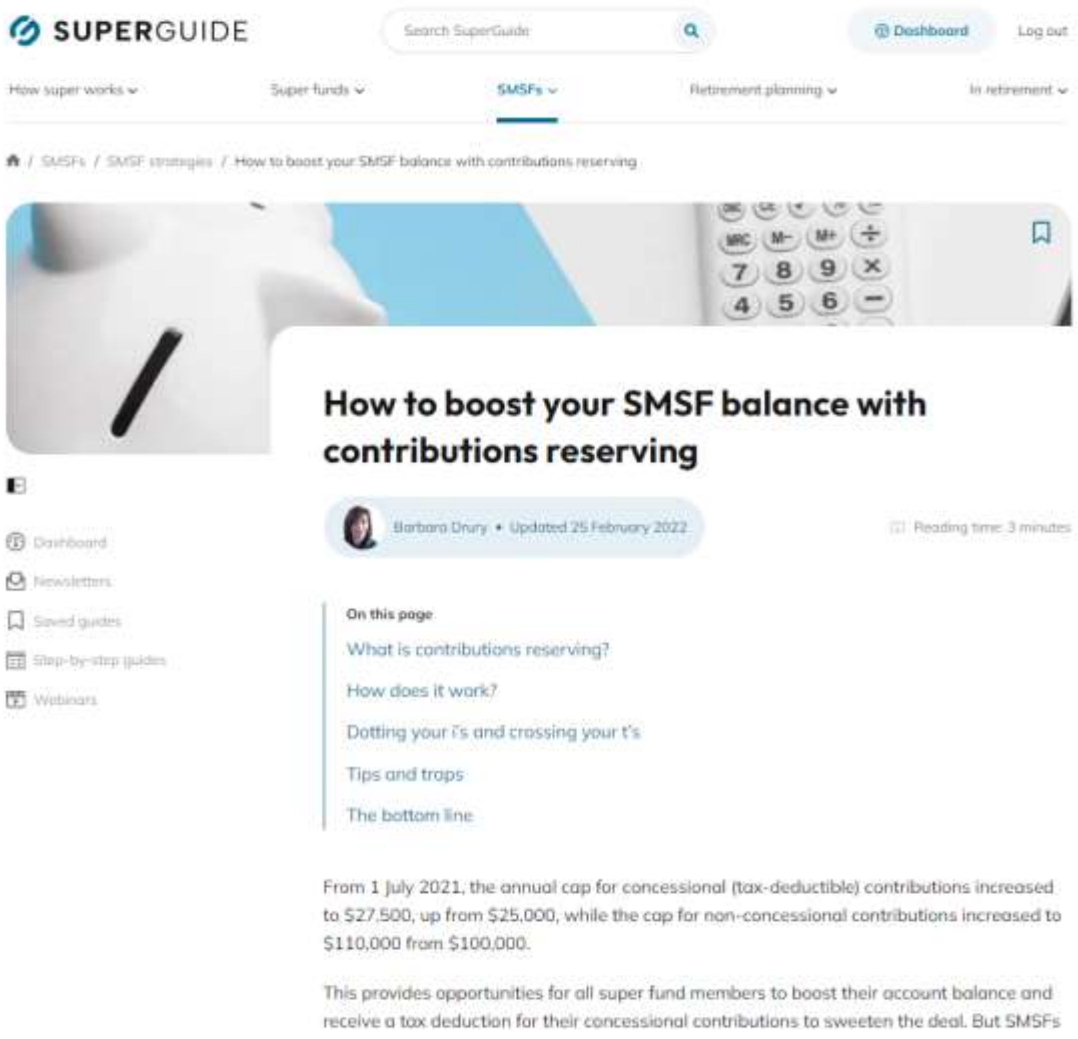
This would not include any unused concessional contributions that may otherwise be available.

Other Issues

As the contribution rules tend to look at ***"a contribution"***, it would be worth considering making separate contributions for each member and for each year.

That is, you probably can't say that a single contribution that is made represents amounts that are to be allocated directly to a member and another part of the same contribution to the holding/reserve account.

Resources



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Question 7

I have $1.9 million in pension.

Am I allowed to contribute to my accumulation super account.

If so, how much I can contribute in terms of concessional contributions and non-concessional contributions.

I am 65 years old and not working now

Arasan

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Issues to consider

- There are limits imposed on making further **non-concessional contributions** to super once your total super balance as at the prior 30 June has reached the general transfer balance cap (GTBC).

- This GTBC currently sits at $1.9M.

If your total super balance at the prior 30 June is NOT BELOW the GTBC, then your non-concessional cap for the current financial year is $0. Any NCC you make will be deemed an excess non-concessional contribution.

Issues to consider

- The GTBC restriction does not apply to **concessional contributions.** So even if your total super balance as at the prior 30 June exceeds the GTBC, this would not preclude concessional contributions.

- The current **concessional contributions** cap for the 2024 Financial Year is $27,500.

- You can also carry forward any unused amount of concessional contributions for a 5-year period, BUT your **TSB must be less than $500K** at the previous 30th June.

- You would need to have assessable income to “offset” in order for there to be a concessional contribution. If not, the amount would be included as a non-concessional contribution

- There may be a work test requirement when making a **concessional contribution**

Work test requirements

<u>If you are under 67</u>, you are eligible to make a personal contribution into your super account and claim a tax deduction.

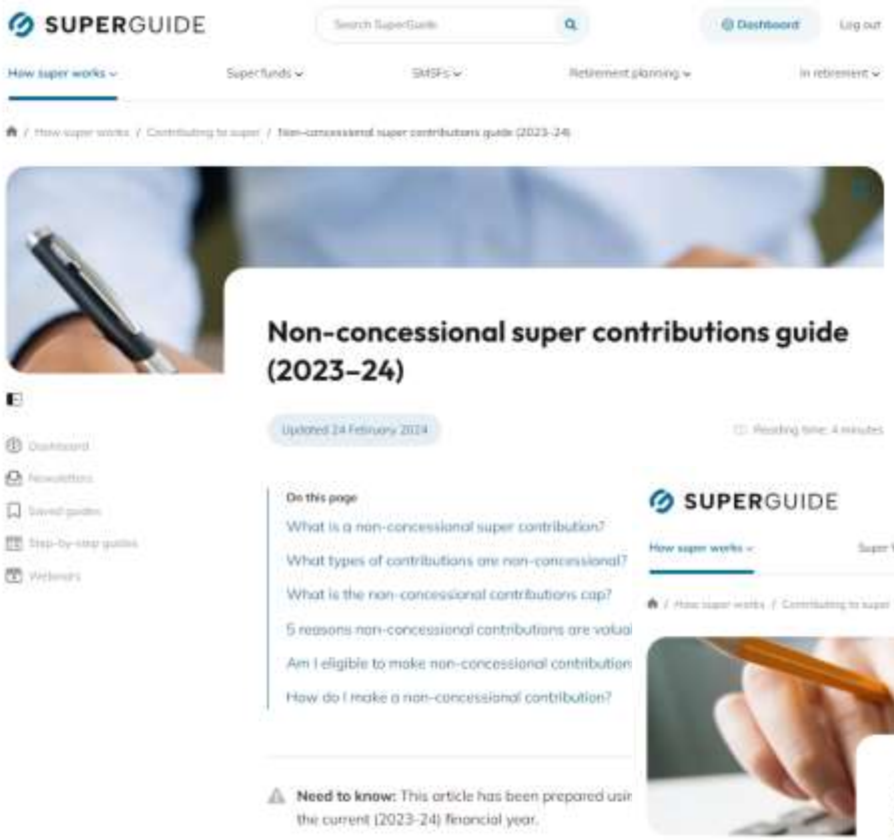
If you are aged under 18 at the end of the financial year in which you made the contribution, you can only claim a deduction if you also earned income as an employee or a business operator during the year.

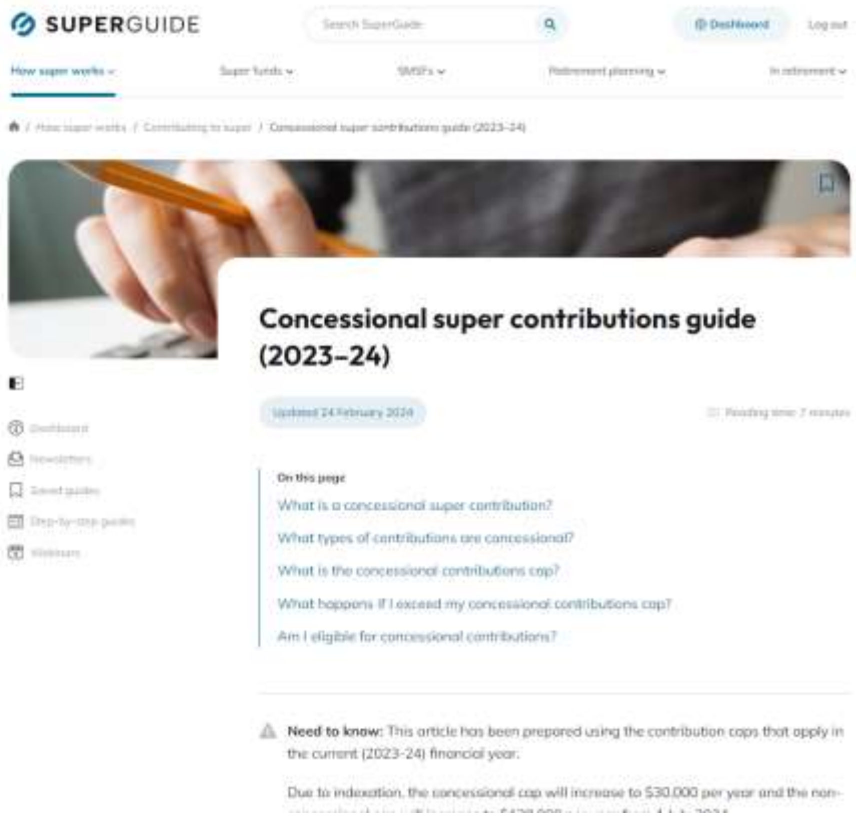
If you are 67 and not yet 75, you must pass the work test (be 'gainfully employed' for at least 40 hours in 30 consecutive days during the same financial year) or be eligible for the work test exemption in order to make a concessional contribution.

If you are 75 and over, you are generally not permitted to contribute and claim a tax deduction.

You can only claim a deduction for contributions you make before the 28th day of the month following the month in which you turned 75, plus you must still satisfy the work test.

Resources





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Question 8

Is there any way I can add to my SMSF at age 79?

Ivan A

Issues to consider

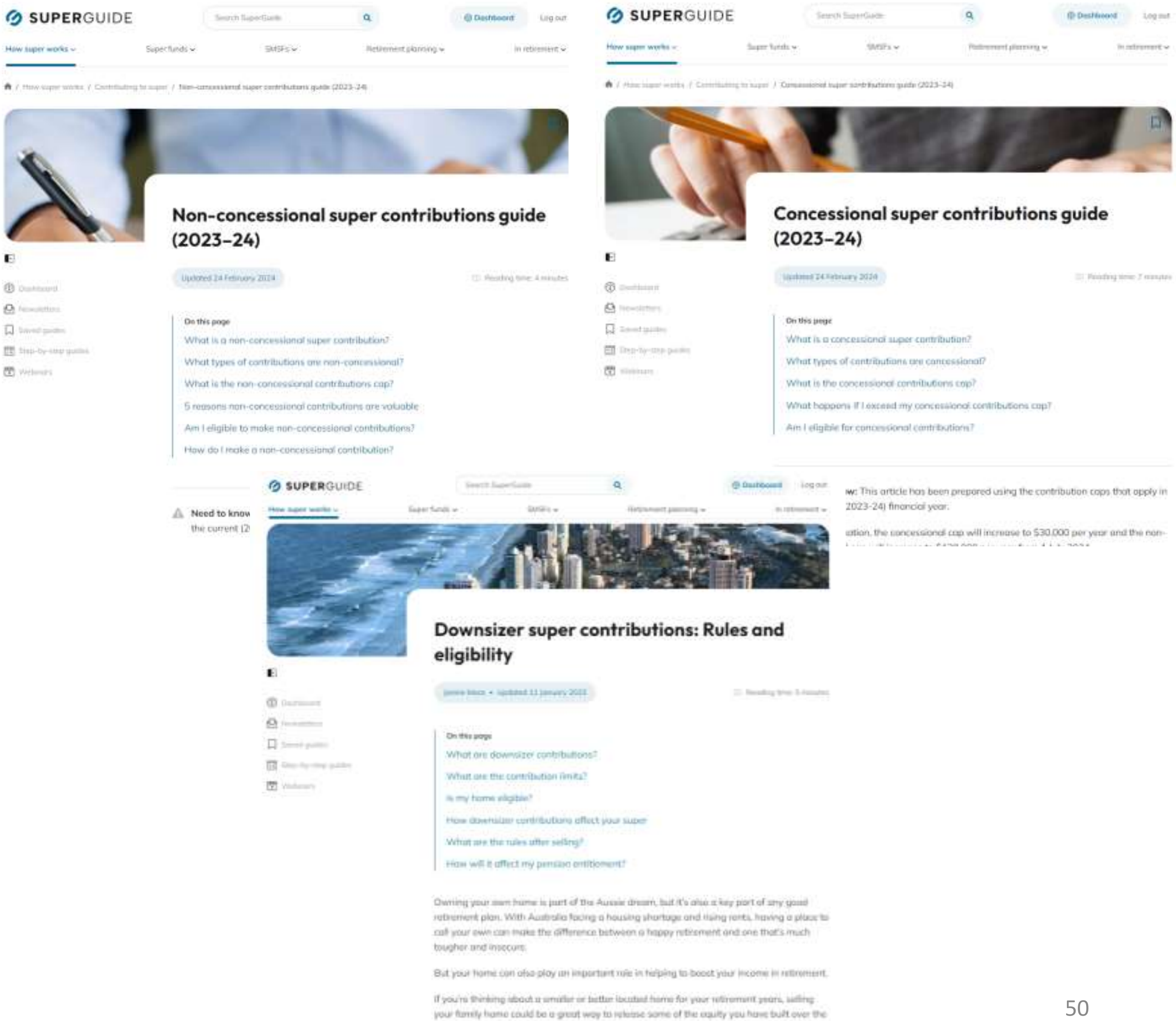
Contribution restrictions: Age	
Non-Concessional Contributions	If over 75 – not allowed (unless within 28 days after the end of the month you turned 75)
Concessional Contributions	Yes – but only compulsory employer contributions
Downsizer Contributions	Yes, so long as all criteria is met

Issues to consider

Contribution restrictions: Age	
Non-Concessional Contributions	If over 75 – not allowed (unless within 28 days after the end of the month you turned 75)
Concessional Contributions	Yes – but only compulsory employer contributions
Downsizer Contributions	Yes, so long as all criteria is met

Rollovers from other funds into a SMSF would be allowed at any age.

Resources


SUPERGUIDE
Non-concessional super contributions guide (2023–24)
Updated 24 February 2024
On this page
What is a non-concessional super contribution?
What types of contributions are non-concessional?
What is the non-concessional contributions cap?
5 reasons non-concessional contributions are valuable
Am I eligible to make non-concessional contributions?
How do I make a non-concessional contribution?
Need to know
SUPERGUIDE
Concessional super contributions guide (2023–24)
Updated 24 February 2024
On this page
What is a concessional super contribution?
What types of contributions are concessional?
What is the concessional contributions cap?
What happens if I exceed my concessional contributions cap?
Am I eligible for concessional contributions?
SUPERGUIDE
Downsizer super contributions: Rules and eligibility
On this page
What are downsizer contributions?
What are the contribution limits?
Is my home eligible?
How downsizer contributions affect your super
What are the rules after selling?
How will it affect my pension entitlement?

Question 9

I have converted a fixed sum from my accumulation account to commence a pension. Therefore, there are still funds in the accumulation account which will receive further contributions.

As the value of my overall balance is adjusted each year when the accounts are done, is any adjustment made to the fixed sum allocated to the pension or does it always remain the original amount?

I am asking so I can ensure I take the minimum required amount as a pension

John C

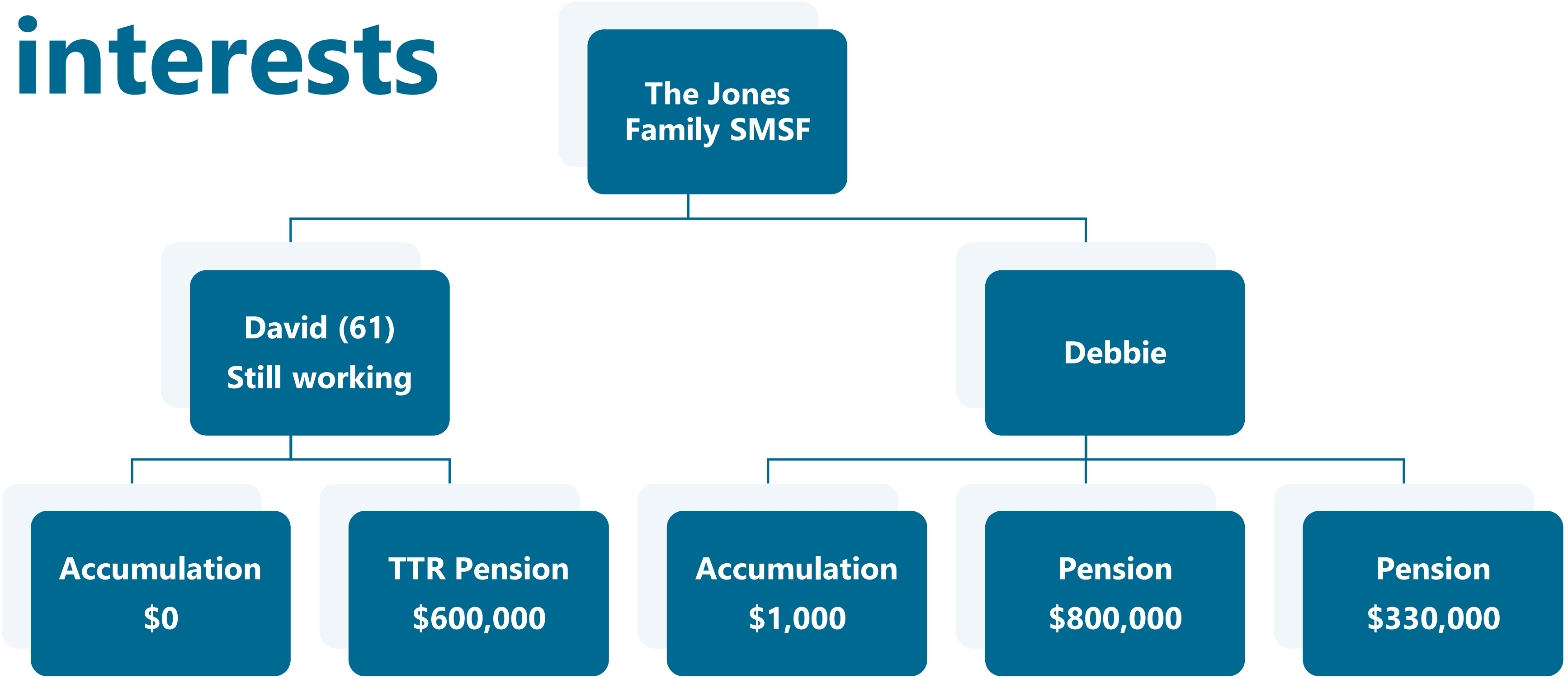
Issues to consider

Member Interests / Accounts

- You can only have 1 accumulation account in your superfund
- BUT you can have multiple pension accounts in your superfund (deed permitting)
- Each account has its own tax components; relevant only to that account
    - **Tax-free component** (Personal after-tax contributions)
    - **Taxable component** (Employer / Tax deductible contributions & earnings)
- **Proportioning rule:** When accessing super benefits (pension, lump sum, rollovers) the benefit must be paid out proportionately from the tax components of that member interest!
    - Tax-free %
    - Taxable %

Earnings are calculated on each member account / interest SEPARATELY

Member interests

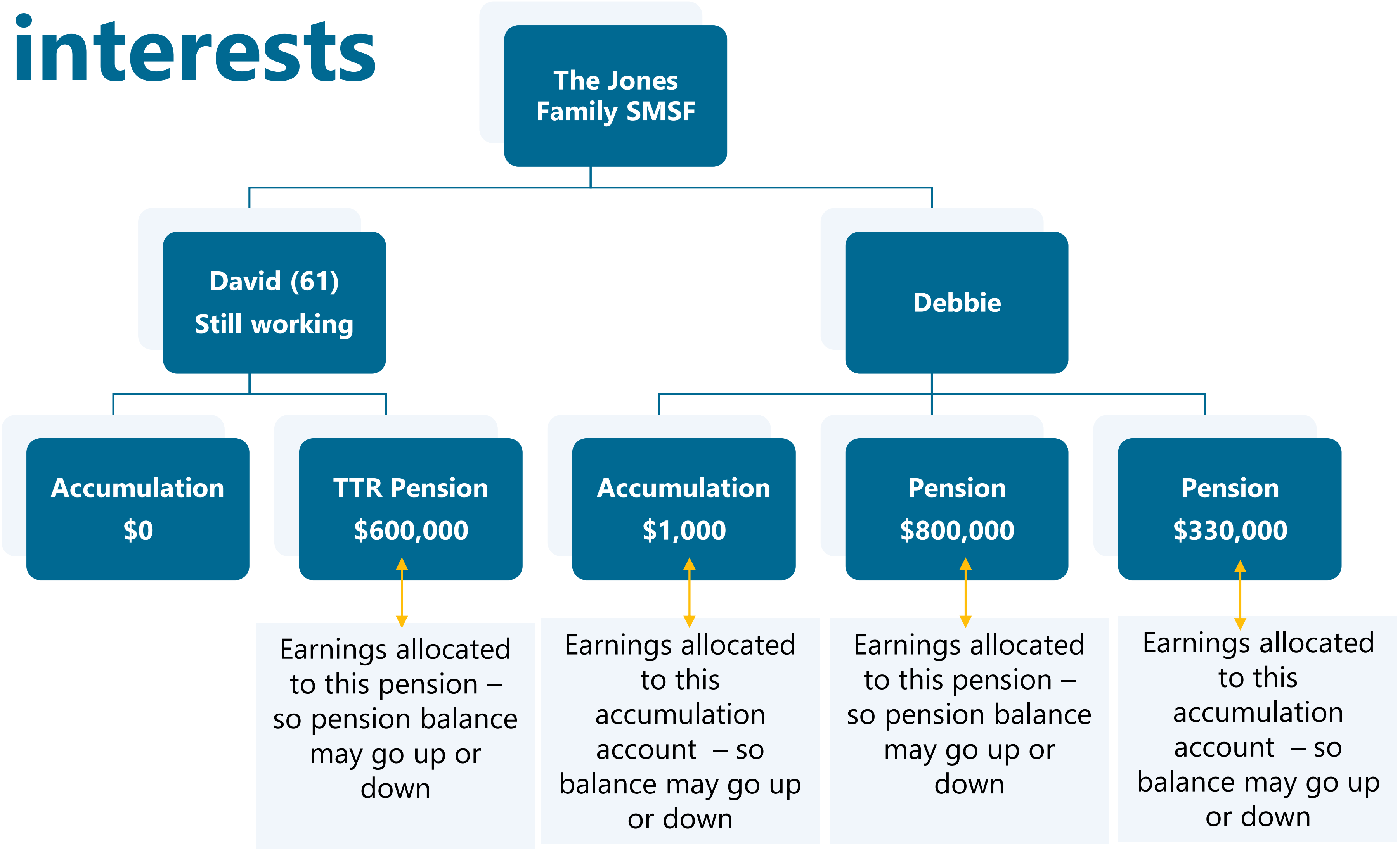


David has 2 super interests:
- 1 accumulation interest
- 1 pension interest

Debbie has 3 superannuation interests:
- 1 accumulation interest
- 2 pension interests

Earnings are calculated on each member account / interest SEPARATELY

Member interests



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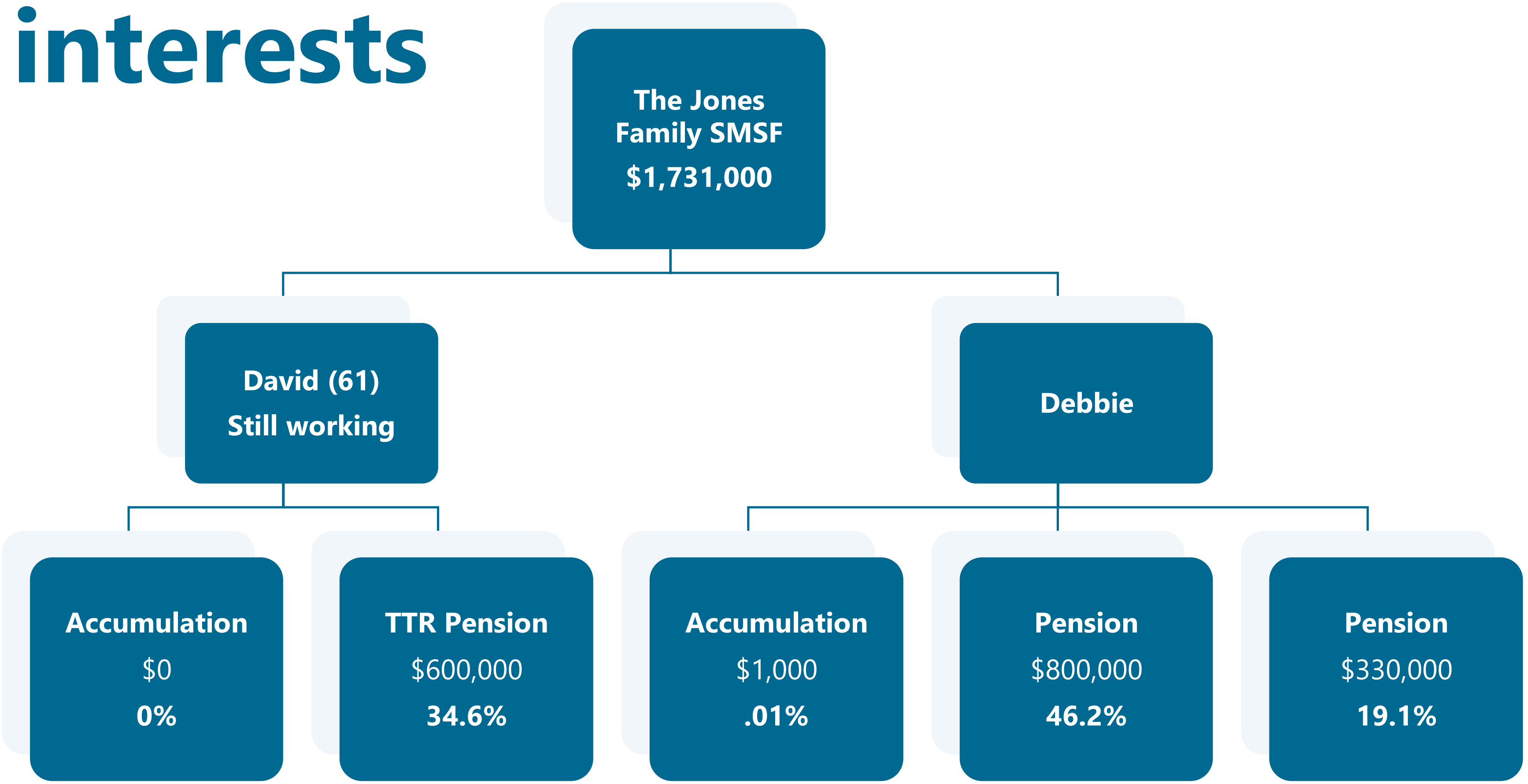
Member interests



In a standard fund where all assets are unsegregated (shared by all members), earnings and losses would be based on a % of balance basis.

Have a look at the December 2023 Q&A webinar for a detailed example on segregation.

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Wrap up