June 2022

Welcome to the latest edition of our newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss

* 7 age pension traps to avoid
* Is my employer paying me the right super?
* Super changes that could affect you from 1 July 2022

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,

The team at Hanmoore

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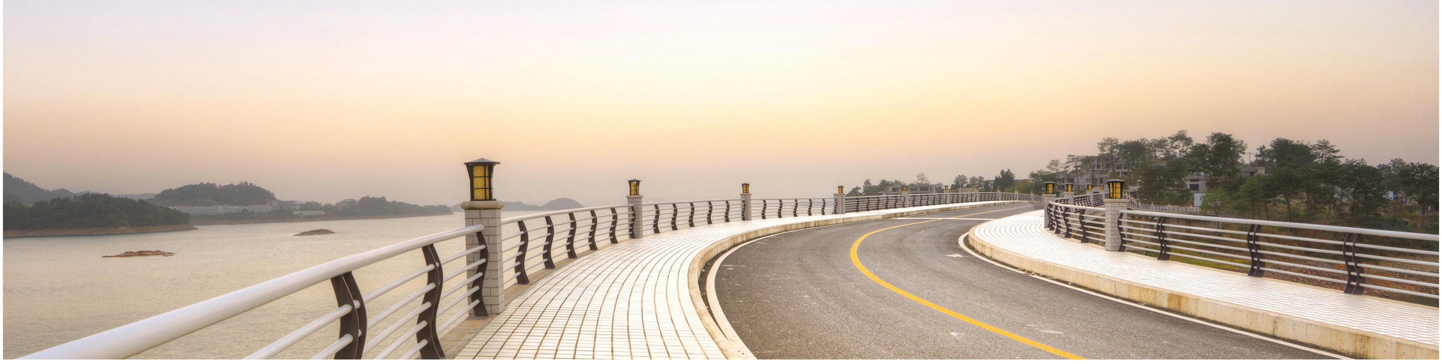

Super changes that could affect you from 1 July 2022

A number of changes to the super system could create opportunities for Australians of all ages. Here's a rundown of what you need to know.

Last month, the Federal Government legislated a number of proposals that it previously put forward in its May 2021 Federal Budget. The changes announced will come into effect on 1 July 2022.

Here's a snapshot of what will change, with further details below.

- More people will be eligible for contributions from their employer, under the Superannuation Guarantee (SG), as the minimum income threshold of $450 per month will be removed.
- Work test requirements for those aged 67 to 75 will be softened and only apply to people who want to claim a tax deduction on voluntary super contributions they may be making.
- More people will be able to make up to three years' worth of non-concessional super contributions in the same financial year, with the cut-off age increasing from 67 to 75.
- More people will be eligible to make tax-free downsizer contributions to their super from the proceeds of the sale of their home, with the eligibility age reducing from 65 to 60.
- First home buyers, who meet certain criteria, will be able to withdraw an additional $20,000 in voluntary contributions from their super, to put toward a deposit on their first home.

How you could benefit from the changes

Compulsory (SG) contributions from your employer

Under the government's Superannuation Guarantee (or SG for short), you currently need to earn at least $450 per month to be eligible for compulsory super contributions from your employer. However, from 1 July 2022 that minimum income threshold will be removed.

This means that even where an eligible employee earns less than $450 in a calendar month, there is now an obligation on the employer to make contributions.

The work test

Currently, people aged 67 to 74 can only make voluntary contributions to their super if they've worked at least 40 hours over 30 consecutive days in the financial year, unless they meet an exemption.

From 1 July 2022, the work test will no longer apply to contributions you make under a salary sacrifice arrangement with your employer, or personal contributions that you don't claim a tax deduction for. The work test however will still need to be met if you wish to claim a tax deduction on personal contributions.

Under the new rules, the work test can be met in any period in the financial year of the contribution. This is different to the current rules, where the work test must be met prior to contributing.

Non-concessional super contributions

Currently, those under the age of 67 at the start of the financial year can make up to three years of non-concessional super contributions under bring-forward rules.

From 1 July 2022, the cut-off age will increase to 75.

The bring-forward rules allow you to make up to three years of non-concessional contributions in a single year if you're eligible. This means you could put in up to three times the annual cap of $110,000, meaning you could top up your super by $330,000 within the same financial year.

How much you can make as a non-concessional contribution will depend on your total super balance as at 30 June of the previous financial year.

Downsizer contributions

The age Australians can make tax-free contributions to their super from the proceeds of the sale of their home, which needs to be their main residence, will be reduced from 65 to 60. (Note, there is no upper age limit for downsizer contributions and no requirement to meet the work test.)

The maximum downsizer contribution amount of $300,000 per eligible person and other eligibility requirements remain unchanged.

For couples, both spouses can make the most of the downsizer contribution opportunity, which means up to $600,000 per couple can be contributed toward super.

The First Home Super Save Scheme (FHSSS)

The First Home Super Saver Scheme (FHSSS) aims to provide a tax-effective way for eligible first home buyers to save for part of a deposit on a home.

Under the scheme, you can withdraw voluntary contributions (plus associated earnings/less tax) from your super fund, with the current maximum withdrawal broadly $30,000 for each eligible individual.

From 1 July 2022, this withdrawal cap will increase to broadly $50,000 for each eligible individual.

Other important things to note about your super

- 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 sets 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.

There may be lots of things to consider when it comes to these superannuation changes, and it may affect what you choose to do this financial year. We're here to help

Is my employer paying me the right super?

Billions of dollars in super contributions go unpaid every year. Here's how you can find out if you're getting paid what you're owed and what you can do if you're not.

A while back, a mate of mine posted on social media that she was owed over $10,000 in super from a former employer, who had since shut up shop (money she may never see when she does eventually retire).

Responses from friends revealed she wasn't alone, with one person commenting that, like her, they still hadn't received their unpaid super money, with employers who go out of business sometimes harder to chase up.

The good news, according to the ATO's last count, is that around 95% of super contributions were being paid by employers, but on the flipside that did leave around $2.5 billion in unpaid super.[i]

If you're not sure if you're getting paid what you're owed, here's what you need to know and what you can do if something doesn't look right (keeping in mind, the sooner you act, the better).

Who's most at risk?

In the past, the ATO has indicated that about 50% of super debts it deals with relate to insolvency (in other words, companies that don't have the cash to meet their obligations).[ii]

On top of that, data from ASIC indicated non-payment of super was more likely to happen in certain industries - hospitality, construction and retail to name a few.[iii]

What should your employer be paying you?

Generally, if you're earning over $450 (before tax) a month, no less than 10% of your before-tax salary should be going into your super under the Superannuation Guarantee.

It's also important to note that from 1 July 2022, changes to super will see more people become eligible for contributions from their employer, as the minimum income threshold of $450 per month will be removed.

Meanwhile, if you'd like an estimate of how much super your employer should have paid into your super account, try the ATO's estimate my super tool.

How can you check if you're getting paid the right super?

Start by looking at your payslips and know that while super contributions may be listed on your payslip, this doesn't always mean money has been deposited into your super account.

With that in mind, you'll want to check your super statements, call your super fund, or log into your super account online to see exactly what you've been paid.

Another thing to be aware of is even if your wages are paid weekly, fortnightly or monthly, super contributions only need to be paid into your fund four times a year (at a minimum) on dates determined by the ATO.

What should you do if something doesn't look right?

– If it looks like you haven't been paid what you should've, speak to the person who handles the payroll at your work, as there may be a simple explanation.

– If you're not satisfied with what they tell you, you can lodge an unpaid super enquiry with the ATO. You'll need to give your personal details, including your tax file number, the period relating to your enquiry and your employer's details. You can also call the ATO on 13 10 20.

– It's worth contacting your super fund too, as your employer may have a contractual arrangement with your super fund, which means your super fund may be able to follow up any unpaid super on your behalf.

i Australian Taxation Office (ATO) - Superannuation guarantee gap (figures related to 2018-19)

ii,iii The Association of Superannuation Funds of Australia (ASFA) media release - Unpaid super – workers deserve better

7 age pension traps to avoid

Make sure you don't lose out on your age pension entitlements.

After a lifetime of hard work, it's important you maximise your entitlements in retirement. So you need to structure your finances carefully to make sure you don't lose your age pension. After all, you've earned it. Here are some common traps to be aware of.

Helping loved ones out...

It's only natural to want to help younger family members get a leg up financially. But if you're nearing or already in retirement, you need to be careful how you go about this, as you could inadvertently affect your age pension entitlements. If you're thinking of giving money, the rules are you can gift $10,000 per financial year, and no more than $30,000 over a five-year period. Any excess amount is counted as an asset, and deemed to earn income, for a full five-year period from the date of the gift.

...especially with buying property

With house prices so high and home ownership getting out of reach for younger Australians, it's no surprise that many parents want to help their kids get a foot on the property ladder. But with property you need to be extra careful in how you set things up.

Let's look at an example. A couple aged 55 want to help their daughter buy her first home. Without taking advice they buy a 50% share of a house worth $500,000 so she can obtain a loan.

Fast forward 12 years and the house is now worth $1,000,000, of which their half share is $500,000. Their other financial assets are worth $700,000 so they believed they would be eligible for a part age pension. To their dismay they discover their equity in their daughter's home has taken them over the assets test cut-off point, meaning they won't be getting any age pension from the Government.

So what can they do? If they transfer their ownership share to their daughter the capital gains would be as high as $125,000 after the 50 per cent tax discount, on which capital gains tax could be as much as $50,000. And they would have to wait five years to qualify for the pension because Centrelink would treat the $500,000 as a deprived asset. The total value of the capital gains tax and the lost pension could be as much as $150,000!

If they'd been aware of the trap, or taken advice, they could have gone guarantor for their daughter, possibly putting up their own home as part security, and this would have had no effect on their future pension eligibility. Alternately, they could have transferred their ownership to their daughter at least 5 years before they became eligible for the age pension. They still would have had a capital gains tax liability, but at least the 5-year period for counting the gift would have elapsed by the time they applied for the age pension.

Borrowing against the family home to invest

If you're already, or about to be, on the age pension, purchasing an investment property with the loan secured against your family home (primary residence) can be a trap.

Normally, the debt against an investment asset—for example, an investment property—is deducted from the asset value when working out whether you're eligible for an age pension. But if the mortgage is secured against another asset like the family home, then the gross amount is counted. So this may affect your age pension as the full value of the investment is counted as an asset.

A way to avoid this could be to secure the asset against the investment instead.

Downsizing the family home

If you're thinking of selling your family home and buying a smaller place, there's an added incentive as the Government is allowing downsizer contributions into super for eligible Australians of up to $300,000.

But there could be a Centrelink sting in the tail, as you're converting an exempt asset (the family home) into a counted asset (money left over) that could affect your eligibility for the age pension.

There's plenty to think about if you're looking at downsizing, so you might want to get some advice.

Leaving a bequest in your will

Many retired couples leave all their assets to each other in their wills if they pass away.

While this is perfectly understandable, it could cause grief to the surviving partner if their age pension is reduced or lost altogether. The asset cut-off points for singles and couples are quite different—$595,750 for a single person and $901,500 for a couple.

Starting a super income stream early

If you start a super income stream once you reach preservation age and before you reach age pension age—for example, as part of a transition to retirement strategy—it could affect your entitlements to Centrelink allowances like Jobseeker. So it's important to get financial advice.

Advice can make all the difference in how you set up your super and pension arrangements in general. If you have a younger partner, one option could be moving assets into super as a non-concessional contribution for the spouse who is under age pension age.

The amount placed in super for the younger spouse is preserved until they meet a condition of release. This may work well if their condition of release is only a few years away, but could be a concern if there's more of an age gap.

Changing account-based pensions

If you've been receiving an account-based pension (ABP) for a while, you should be aware of a change made on 1 January 2015 which impacted how much income from the ABP is counted towards the age pension income test.

If you were in an existing ABP you were exempt from the new rules—but only for as long as you continued with the same provider.

So if you change providers you could inadvertently reduce your age pension entitlements.

We can help work out the best option for your particular circumstances—the benefits of a new ABP or the higher age pension.

Setting up a family trust

If there's a family trust or private company involved in your affairs, the rules are even more complex, so you'll need expert advice before applying for the age pension.

Looking at the best way to set up your finances in retirement? Talk to us.

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