June 2023

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

* Tax deductible superannuation contributions explained
* Making superannuation downsizer contributions
* Your 7 point retirement planning checklist

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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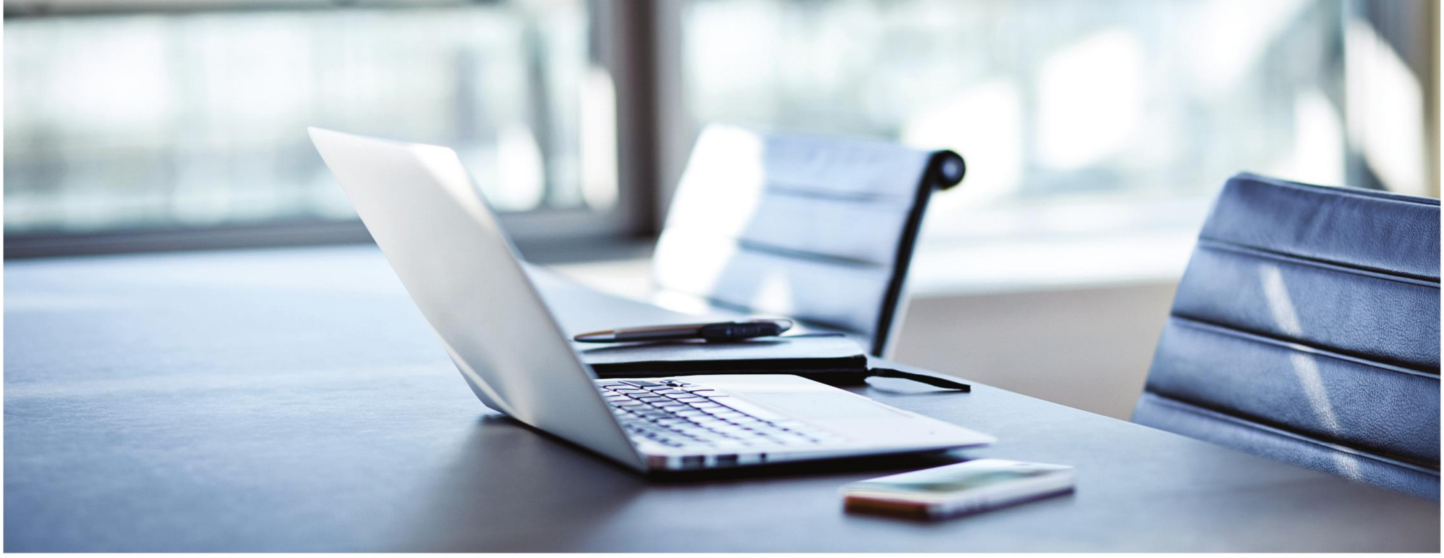


Tax-deductible superannuation contributions explained

Did you know you can claim a tax deduction on certain super contributions when you do your tax return?

Whether you're employed, self-employed, unemployed or retired, you might be eligible to claim a tax deduction on your after-tax super contributions.

After-tax super contributions are voluntary payments made into your super and don't include compulsory superannuation guarantee or salary sacrifice contributions.

How do I make a tax-deductible super contribution?

There are various ways to make an after-tax super contribution, including using money from your salary, savings, or the proceeds from an asset sale. When you contribute these funds to your super, you can claim a tax deduction on the amount when you do your annual tax return.

What are some of the benefits?

Putting money into super and claiming it as a tax deduction may be beneficial if you receive extra income that would otherwise attract personal income tax (as this is often higher).

Similarly, if you've sold an asset subject to capital gains tax, you may contribute some or all of that money and claim it as a deduction. This could reduce or even eliminate the capital gains tax owed.

What do I need to do to claim a tax deduction on a super contribution?

Make an after-tax contribution to your super

While you can contribute any amount, concessional contributions are capped at $27,500 per financial year. In some cases, you can make catch-up concessional contributions, but it's important to check because if you exceed the cap, additional tax may apply.

Lodge a form with your super fund

The next step is to lodge a notice of intent form with your super fund, which will acknowledge receipt in writing. Importantly, you shouldn't make any withdrawals, rollovers or transfers to pension before your notice of intent form has been lodged, as this may reduce or invalidate the tax deduction.

Have the paperwork ready when you do your tax return

Once the financial year ends, you can prepare and lodge your tax return using the written acknowledgement from your super fund.

Are there other things that I should keep in mind?

Your age

Recent changes to super have removed the need to meet a 'work test' before making a personal contribution or under a salary sacrifice arrangement. However, if you are 67-74, you must meet the 'work test' to claim a deduction on personal super contributions.[i]

The 'work test' requirements state that you must be employed or self-employed for 40 hours over 30 consecutive days in the financial year where contributions are made or meet the work test exemption rules.

For the work test exemption, you must meet three conditions:

– You met the work test in the financial year before contributing.

– Your total super balance is less than $300,000 at the end of the previous financial year.

– You did not use the work test exemption in a previous financial year.

Contribution limits

If you're claiming a deduction for an after-tax super contribution, the contribution will count towards your concessional contributions cap ($27,500 per year). Note that you may be eligible to contribute more if you have unused concessional contributions from previous financial years.

Importantly, other contributions also count towards the concessional contributions cap, including:

– Compulsory SG contributions

– Salary sacrifice contributions

Other contribution incentives

After-tax super contributions that you claim a tax deduction for won't be eligible for a super co-contribution from the government.

When you can access super

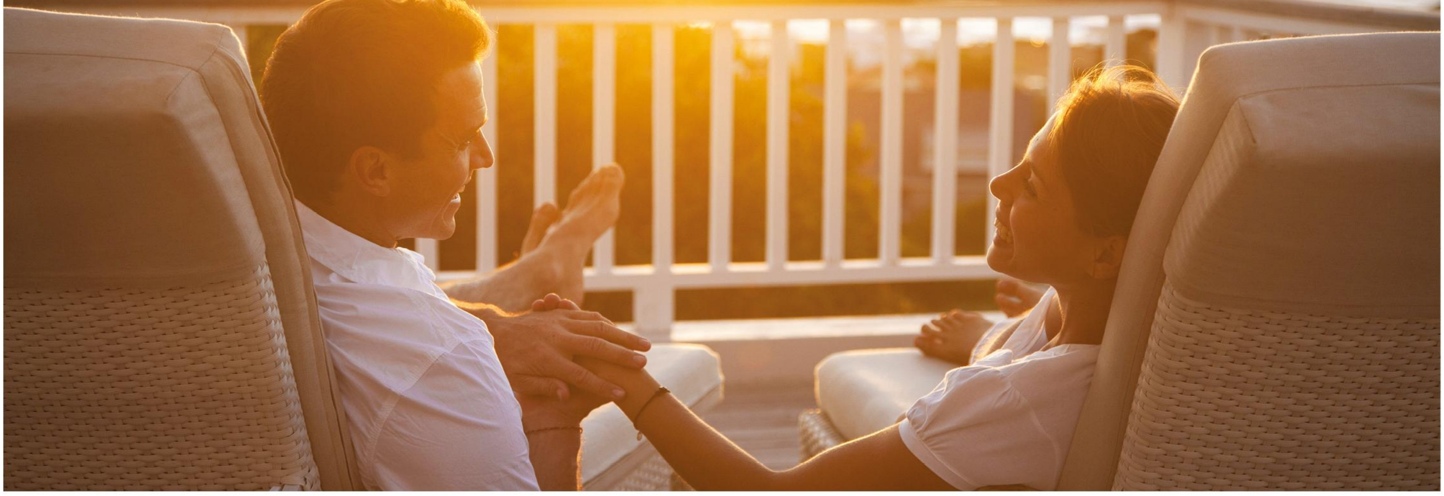
The Government sets rules around when you can access your super. Generally, you won't be able to access this money until you've reached your preservation age and retired.

Super returns aren't guaranteed

The value of your investment in super can fluctuate. Before making extra contributions, make sure you understand the risks.

Contact us to find out about other ways you can contribute to your super.

i https://www.ato.gov.au/Individuals/Super/In-detail/Growing-your-super/Super-contributions---too-much-can-mean-extra-tax/



Making superannuation downsizer contributions

If you're over 55 and looking to boost your retirement savings, you may be eligible to make a super contribution of up to $300,000 from the sale proceeds of your primary residence.

On 1 January 2023, the age when eligible Australians qualify to make downsizer contributions was reduced from 60 to 55. For those who qualify, it can be an opportunity to top up your super balance to capture potential tax-exempt future investment returns when you turn 60 and may be eligible to commence a retirement phase income stream.

So, if you're considering selling your home and using downsizer contributions, here's what you'll need to know.

Benefits of making a downsizer contribution

Super balance boost

Downsizer contributions can provide a tax-effective way to boost your super balance, especially if you haven't had the chance to save enough funds for retirement.

Tax-free investment earnings

The earnings generated from your downsizer contribution can provide you with a tax-free source of income, assuming you have met the age requirements to move from the accumulation phase, to drawdown retirement phase.

No work test requirement

No work test or upper age limits apply to downsizer contributions, providing the flexibility to take advantage of the downsizer contribution at any time.

Concessional and non-concessional caps don't apply

Downsizer contributions aren't limited by regular concessional and non-concessional contribution caps. That means you can direct up to $300,000 beyond any funds already in your super.

There is no requirement to buy a new home

If you sell your main residence and make a downsizer contribution to your super, you're not required to buy a new home with the money you might make on the sale.

Both partners can benefit

For couples, both partners can participate in downsizer contributions, where up to $600,000 of sale proceeds may be invested into super.

No total super balance contribution restrictions

Downsizer contributions aren't subject to the total super balance limit which restricts non-concessional contributions. This means if your balance is already above the limit, you can still make a contribution.

Rules and other considerations to be aware of

It's important to note that while downsizer contributions are exempt from regular contribution caps, the funds will contribute towards your total super balance amount. They are also subject to the transfer balance cap (TBC).

The TBC applies when funds are moved from your super account into a retirement pension, where income generated from investments has a 0% tax rate. This amount is currently capped at $1.7 million (but is increasing on 1 July 2023 – more on this below), and any amount above, including from the downsizer contribution, will still be taxed at the accumulation rate of 15%.

Additional considerations include:

- You must be aged 55 or over to make a downsizer contribution.
- The sold property must have been the primary place of residence at some point in time and have been owned by you for at least 10 years.
- The sold property must be in Australia and excludes caravans, mobile homes, and houseboats.
- A downsizer contribution must be made within 90 days of receiving the sale proceeds.
- A downsizer contribution form must be submitted to your super fund before or when making your contribution.
- You can't have previously made a downsizer contribution to super.
- The maximum amount of super savings that can be transferred into a retirement pension increased to $1.7 million on 1 July 2022 and is set to increase again to $1.9 million on 1 July 2023. For some individuals however, there may be no change at all to the total amount you can transfer.
- Downsizing your home may impact your age pension eligibility as the family home is generally not considered an assessable asset when calculating entitlements.
- The costs involved in selling a property and buying another one can be considerable.

Downsizer contributions are not tax-deductible contributions.

Depending on your personal circumstances, various other rules may apply, so it's important to speak us before making any significant decisions.

Your 7-point retirement planning checklist

Confidence about retirement is on the slide. Here are some big points to consider to help you start planning.

Socialising with mates, enjoying leisurely activities and indulging in the odd trip away are all things that have likely crossed your mind when thinking about how you'll spend retirement.

Beyond that though, have you given much thought to the logistics and what it'll cost? If you haven't, you're not alone.

AMP's 2022 Financial Wellness report reveals that almost half (46%) of working Australians don't know how much they will need to have saved for retirement.

And perhaps this is because so few of us have set specific goals. Only 24% have a financial goal, with the rest of us yet to put pen to paper and flesh out what we'd like to achieve after we finish working.

Given all this, it's not surprising our confidence about retirement is on the slide. More than one in five (21%) of working Australians are not at all confident they will be able to achieve their desired standard of living in retirement. That's down four percentage points since the previous survey two years ago. And fewer than one in ten (9%) are very confident – down five percentage points.

So if you're thinking of getting on the front foot with your retirement planning, here's a useful checklist with the big points to consider.

Do I have to retire by a certain age?

The retirement age in Australia isn't set in stone. You can retire whenever you want to, but factors that could play a part might include:

- your health
- financial situation
- employment opportunities
- your (and your partner's) individual preferences
- the age you can access your super.

What's on my to-do list?

Think about what you may like to do in retirement and what the bigger and smaller priorities may be. Consider things such as:

- your social life and recreation
- staying active and healthy
- different retirement living options, which might include relocating to a new city
- helping the kids, if you have any.

How much money will I need?

According to the Association of Superannuation Funds of Australia's (ASFA) December 2022 figures, individuals and couples around age 65 who are looking to retire today would need an annual budget of around $49,462 or $69,691[i] respectively to fund a comfortable lifestyle.

To live a modest lifestyle, which is considered better than living on the age pension alone, individuals and couples would need an annual budget of around $31,323 or $45,106, respectively.

All these ASFA figures are based on the assumption people own their home outright and are relatively healthy[ii], and are compared to the Government's current maximum age pension rates below.[iii] (These rates assume the maximum pension supplement and the energy supplement).

Per fortnight	Single	Couple each	Couple combined	Couple apart due to ill health
Maximum basic rate	$971.50	$732.30	$1464.60	$971.50
Maximum Pension Supplement	$78.40	$59.10	$118.20	$78.40
Energy Supplement	$14.10	$10.60	$21.20	$14.10
Total	$1064.00	$802.00	$1604.00	$1064.00

Where will my money come from?

The money you use to fund your life in retirement will likely come from a range of different sources, such as:

Your super fund

Generally, you can start accessing super when you reach your preservation age, which will be between 55 and 60, depending on when you were born, and retire. Knowing your super balance is a crucial part of planning for retirement, as it's likely to form a substantial part of your savings.

If you've got more than one super account, there may also be advantages to rolling your accounts into one, such as paying one set of fees. However, there could be certain features lost in the process, such as insurance, so make sure you're across everything before you consolidate.

Investments, savings or an inheritance

You may be planning to sell or use income you're generating from shares or an investment property, or use money you've saved in a savings account or term deposit to contribute to your retirement. An inheritance or proceeds from your family's estate may also help in your later years.

Government benefits

Depending on your circumstances, as well as your income and assets, you may be eligible for a full or part age pension from age 65 to 67 onwards (depending on when you were born), or you mightn't be eligible at all.

Along with your savings, government benefits, such as the Age Pension, as well as Carer's Allowance and the Disability Support Pension, could be an important part of your retirement income.

Concession cards, which are provided if you receive certain government income support payments, or the Commonwealth Seniors Health Card could also help you access discounts on health care and other things.

How can I withdraw my super?

Depending on how you withdraw your super and at what age, there will be different tax implications worth investigating, which will depend on your individual circumstances.

In the meantime, some of the options you'll have around withdrawing your super include:

Transition to retirement pension

A transition to retirement pension enables you to access some of your super via regular payments (once you've reached your preservation age), whether you continue to work full-time, part-time or casually.

This may provide you with some financial flexibility in the lead up to retirement, but there will be things to consider, including that you'll generally only be able to access a limited amount each financial year.

Account-based pension

If you'd like to receive a regular income when you do retire from the workforce, an account-based pension (also known as an allocated pension) could be a tax-effective option, noting the value of it will be based on the super you've saved, so won't guarantee an income for life.

You also won't be limited in what you can take out, but each year you'll need to withdraw a minimum amount. Note, you can generally only transfer up to $1.7 million in super into this type of pension too.

Annuity

Another option is an annuity product, which generally provides guaranteed payments over a set number of years, or the rest of your life, depending on whether you opt for a fixed-term or lifetime annuity.

They tend to be a more secure option as they provide a guaranteed income regardless of what might happen in financial markets. However, you'll be sacrificing some flexibility as you can't usually make lump sum withdrawals and your life expectancy may also be a consideration.

Lump sum

Taking some or all of your super savings as a lump sum can be tempting, particularly if you want to pay off debt, assist the kids, or go on a holiday. However, it might not be the best option for everyone, as you'll need to consider how you fund your lifestyle after the money is gone.

While you may be eligible for government entitlements, such as the Age Pension, it might not cover the type of lifestyle you'd like to have after you finish working.

What other matters will I need to address?

Existing debt

When planning retirement, you may want to consider what outstanding debt you have and ways you may be able to reduce it while you're still earning an income.

Talk to us about reducing your debts before you retire and remember, if you're experiencing financial hardship talk to your providers, as most can assess your situation and help you find alternative payment plans.

Insurance

You might have personal insurance, possibly tied to your super fund, but it's worth checking you have the right type and that it's appropriate for you. After all, what you require in retirement could be quite different to when you're working.

Investment preferences

Investments are part of many retirement planning strategies, and when you're retiring, it's worth reviewing your investment style and the options you've chosen.

For instance, in retirement, you might consider a more conservative approach with less risk, as when you're younger you generally have more time to ride out market highs and lows.

Estate planning, including your will

It's important to think about your estate planning needs. For instance, have you documented how you want your assets to be distributed after you're gone and how you want to be looked after if you can't make decisions later in life?

Do I want to make any final super contributions?

The more you can put into super before retiring, the more money you're likely to have when you retire.

However, there are annual concessional and non-concessional super caps in place and if you exceed them, additional tax and penalties may apply.

You may also be interested to know that when you reach age 55 or over, you can make a voluntary contribution to your super of up to $300,000 using the proceeds from the sale of your main residence.

For couples, both people can take advantage of this opportunity, which means up to $600,000 per couple can be contributed toward super. There are however, downsizer contribution rules you'll want to be across.

Whatever stage of life you're at, your super will probably become the cornerstone of your retirement strategy. Super rules do start to get a bit trickier as you get older and if you're keen to know more, contact us.

i https://www.superannuation.asn.au/resources/retirement-standard

ii https://www.superannuation.asn.au/resources/retirement-standard

iii Services Australia – Age Pension – How much you can get – December 2022 figures