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Superannuation

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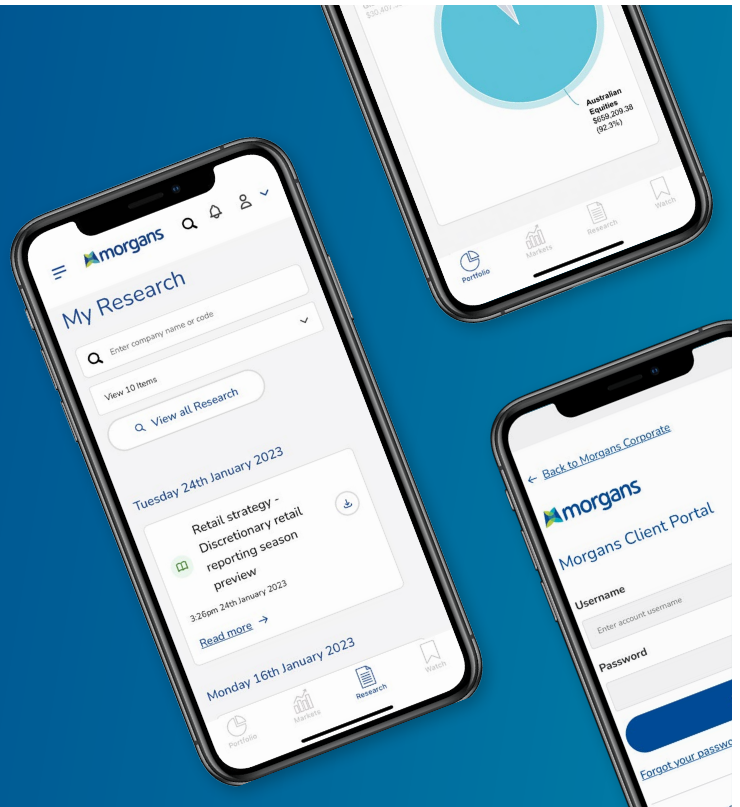

Awards and recognition

Morgans is proud to have been voted the Best Australasian Retail Broker at the ARIA 2022 Best Practice Investor Relations Awards for the sixth time.

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The objective of superannuation

The provision of income in retirement is an important objective of superannuation. However, it is also important to ensure our superannuation savings provide a comfortable standard of living in retirement.

Arguably the biggest challenge for Australians is knowing whether we have saved enough capital throughout our working life to ensure these objectives can be met. How much we need to retire on will depend on what sort of lifestyle we want in retirement.

The growing popularity of self-managed superannuation funds (SMSFs)

SMSFs are one of the fastest growing segments of the superannuation market. It is estimated more than a trillion dollars will be invested in superannuation within five years. Over 98% of superannuation funds in Australia today are family based SMSFs.

SMSFs are becoming the vehicle of choice for many people.

Long-term savings for future income

For many people, apart from their homes, superannuation is their major asset.

Growth in superannuation investment has been significant, particularly in self-managed superannuation, as many Australians seek greater involvement in the management of their long-term savings.

Superannuation is a complex area and the subject of many legislative changes. However, government policy continues to promote Australian savings into superannuation through tax concessions, financial incentives and rebates.

There are now limits on how much an individual can tax-effectively contribute into superannuation. For details on current taxable and non-taxable contribution limits, please speak to your Morgans adviser as these limits can change.

Government support

Government incentives are available to low, middle and high-income earners.

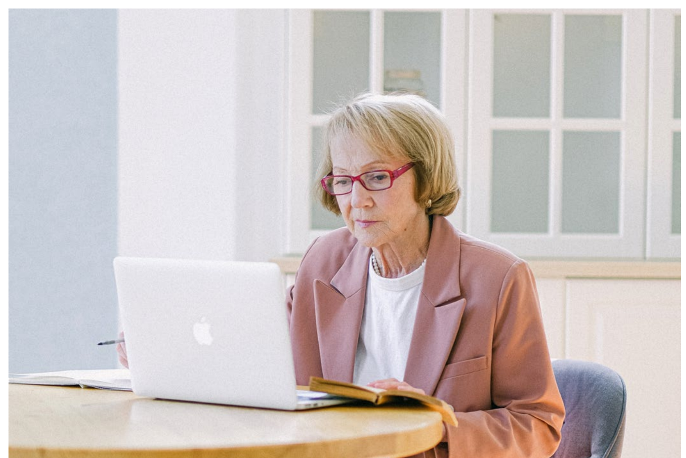
A person on the top marginal tax rate could potentially save tax of up to 32 cents in every dollar they contribute to superannuation, subject to contribution caps.

Lower income earners may qualify for tax offsets or co-contributions funded by the Federal Government, depending on the amount contributed into super.

Mature age workers under 65 can access some of their benefits as an income stream without having to fully retire. There is now the opportunity to wind down your work hours without having to compromise lifestyle.

It's all about choice

Since 1992, Australian employers have been legally required to invest in superannuation on behalf of employees. From 1 July 2005, eligible employees have been able to choose their own complying super fund for their employer contributions.



Making super contributions

How do I contribute to my super

- Employer super guarantee contributions – 10% (for 2021/22 FY)
- Employee salary sacrifice contributions – salary forfeited as contributions to super instead of taking as taxable income. From 1 July 2017 employees will also be able to make personal deductible contributions
- Employee voluntary contributions (after tax) – could be eligible for government co-contribution payments if other conditions are met
- Self-employed deductible contributions or non-deductible contributions
- Not working and under 67 (non-deductible) contributions – ability to make deductible contributions will depend on taxable income
- Spouse splitting of spouse contributions, or contributions on behalf of a spouse

Who can make contributions

Details	Description
18-67 years	No work test, no conditions. Anyone can make contributions.
67-75 years	To contribute, a person must work at least 40 hours over 30 consecutive days. Concessional and non-concessional contributions allowed.
>75 years	No contributions unless mandatory from employer (including SGC). Can retain in accumulation account even if not working.
Spouse splitting contributions	If splitting contributions to a spouse - the receiving spouse will be <65. No work test required.
Spouse super contributions	Contributing spouse can be of any age as long as they are a taxpayer. Receiving spouse must be <67 if not working or under age 75 if gainfully employed for at least 40 hours over 30 consecutive days.

Save through super and save tax

This table shows how salary packaging can increase your superannuation balance and save you tax.

Details	Salary package	No salary package
Gross income	$100,000	$100,000
Less salary package	$15,000	Nil
Taxable income	$85,000	$100,000
Tax payable (2021/22 tax rates)	$19,792	$24,967
Net salary	$65,208	$75,033
Total deductible super contributions (including SG)	$25,000	$10,000
Super contributions tax	$3,750	$1,500
Total tax payable	$23,542	$26,467
Net increase in super		$11,250
Income tax reduction		$2,925

Assumptions

- Jack is a full-time employee
- Jack is 60 years of age and wishes to retire in five years' time
- Earns $100,000 p.a. gross
- Employer super contributions = 10% of salary

Salary packaging strategy

- Package $15,000 p.a. from pre-tax salary into super
- Total taxable (employer) contributions $25,000 p.a.
- Benefits of salary packaging
- Reduces taxable income
- Boosts savings to superannuation in a tax effective manner

Catching up on concessional contributions

The details

People with total superannuation balances of $500,000 or less will be able to accrue additional concessional cap amounts from 1 July 2018.

Individuals will be able to access their unused concessional contributions cap space on a rolling basis for a period of five years. Amounts carried forward that have not been used after five years will expire. The measure ensures that people who have not had the capacity to contribute up to their concessional contributions cap in prior years will be able to make catch up contributions by targeting it to those individuals who have been unable to accumulate large superannuation balances.

This will provide flexibility to those individuals who experience interrupted work patterns or have irregular capacity to make contributions to help boost superannuation savings.
Only unused amounts accrued from 1 July 2018 can be carried forward.

Individuals must be eligible to make concessional contributions in the first place so persons aged 67 and under age 75 must meet the 40-hour work test.

The concessional contribution cap was $25,000 for the first three financial years since inception of this law. The cap increased to $27,500 per annum per person for the 2021/22FY. It is important to bear these caps in mind when working out how much unused concessional contribution can be used.

An individual's concessional contributions cap cannot be increased by more than the amount of unused concessional contributions cap that can be used. Any remaining balance of unused concessional contributions cap is preserved and continues to be carried forward.

Amounts of unused concessional contributions cap are applied to increase an individual's concessional contributions cap in order from the earliest year to the most recent year. Unused concessional cap amounts not utilised after five financial years will no longer be able to be carried forward.

Combining the catch up provision with tax deductible contributions

Boosting this provision is the ability for individuals to now claim a tax deduction on concessional contributions made each year, regardless of their employment status. That is, whether they are an employee or self-employed.

Accordingly, this will provide an opportunity for anyone who has varying income levels each year to build their superannuation tax effectively when appropriate.

For example, a small business owner who is just starting out in a business may not know what his or her income levels will be from the business year to year. Being able to use the catch up provisions and claim a tax deduction during strong business years will enable that business owner to continue to build their super balance progressively and tax effectively.

Similarly, an employee who receives employer super guarantee support can also make additional personal contributions in years where income may be greater due to, say, the sale of an investment asset. The tax deduction that employee can claim on the personal contributions can help offset any potential capital gains arising from the sale.

Speak to your Morgans adviser if you would like more information on the catch up concessional contribution rules.

It’s your choice to pay less tax

Access, preservation and tax

If you are nearing retirement, your superannuation may become available to you either as a lump sum and/or an income stream.

Since July 1999, all contributions made and all earnings accrued in superannuation are preserved. This means you cannot access them until you satisfy a condition of release.

Your superannuation account balance will contain two components, tax free and taxable. Super benefits taken either as lump sums or as an income stream must be in proportion to these two components.

Professional advice is recommended to manage and where possible reduce these tax obligations so you get the most out of your superannuation retirement benefits.

A low-tax environment for your money

Maximum tax on super earnings is 15% compared to the company tax rate of 30% and individual tax rate of up to 47%.

Retirement pensions attract no earnings tax or capital gains tax where that pension meets new transfer balance cap rules. Superannuation benefits paid to individuals over age 60 are tax free. Benefits paid to individuals under age 60 are concessionally taxed.

Super investments in property and shares retain the benefits of tax deferred income and franking credits respectively.

Small business owners can enjoy protection from creditors and safeguard the interests of their family through super.

Capital gains tax concessions from the sale of small business assets may be available.

Beneficiaries, death benefits and insurance

Superannuation does not automatically form part of your will. It is the trustee of your super fund who determines where your superannuation money goes in the event of your death. Under superannuation law a death benefit can be paid to your spouse (including same sex or de-facto), children (including step and adopted), financial dependants or your estate, either as a lump sum or, if to a tax dependant, in the form of a pension.

Steps can be taken to ensure that your wishes are considered in the payment of your superannuation benefits to your preferred beneficiaries. One such way is the preparation of a ‘Binding Death Benefit Nomination’ (BDBN). A valid BDBN means the super fund trustees are bound to pay your super benefits in accordance with your instructions.

Life insurance premiums can be tax deductible within superannuation.

Superannuation death benefits paid to a person’s tax dependents are completely tax free.

Non-dependants only pay tax on the taxable component of superannuation death benefits.

How to enjoy your income in retirement

Your decision about where and how your money is invested in superannuation could increase your income in a number of ways. By rolling your superannuation money into a pension income stream at or after retirement, you can:

- generate more tax-effective income
- receive more generous Centrelink treatment
- have the flexibility to decide how your assets will be left to your beneficiaries.

Account-based pensions are the most common form of superannuation income stream.

What is an account-based pension?

- The pensioner has an individual account whereby payments are made at least annually.
- Minimum annual pension payment requirements must be met, based on the person's age each year.
- There is no maximum amount that can be paid out apart from whatever the account balance is at that time.
- The minimum payment is calculated by multiplying the account balance by the percentage factor based on the pensioner's age at the time.
- From 1 July 2021, a $1.7m transfer balance cap will apply.

For more information speak to your Morgans adviser.

How do they work?

An account-based pension is specifically derived from superannuation money. The pension income is paid from the balance of the money remaining in the person's superannuation fund each year until it runs out. Payments can commence following full retirement after preservation age, or if the person is permanently unable to work due to invalidity, or at age 65 regardless of whether the person has retired or not at that time.

Under transition to retirement rules, a person may also commence an account-based pension if they are still working, but the pension must be a non-commutable pension (i.e. unable to take lump sums).

Proportional rule

From 1 July 2007 new tax rules apply to all income streams derived from superannuation. From this date only two tax components will apply:

- a tax-free (exempt) component
- a taxable component.

Superannuation benefits must always be paid in proportion to these new components, even where the benefit payment is tax free for people over age 60.

Where the pensioner is under age 60, he or she will not pay tax on that portion of income derived from the tax free component. The taxable portion of the income payment will be assessable but if funds are from a taxed source a 15% tax rebate will apply.

Minimum % factors for pension payments

Age	Payment – % of account balance*
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 or more	14%

*The minimum pension has been reduced by 50% for the 2021/22 FY.

An account-based pension can offer a range of flexible investment options. The individual can position their investments so they are more effective in meeting income and growth needs in retirement. This flexibility means control is ultimately retained by the pensioner over the level of investment risk and return within the fund.

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