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A new contribution cap for 2021/22

What are the implications?

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One of the final pieces of the 2021/22 planning jigsaw has dropped into place. The release of the November 2020 Average Weekly Earnings data means we now know for sure that the concessional contributions cap will increase from \$25,000 to \$27,500 from 1 July 2021.

If it feels like a long time between drinks, that is because it is. The last time the contribution cap for concessional contributions was above \$25,000 was back in 2016/17.

So, what does this mean for planning right now?

For a start, indexation of the concessional contributions cap automatically flows through to an increased non-concessional cap (\$100,000 will become \$110,000 from 1 July 2021).

We can also now populate the (slightly complex) table (Table 1) of bring-forward thresholds and amounts for 2021/22. It is complex because it depends on both the general transfer balance cap (increasing to \$1.7 million from 1 July 2021) and the non-concessional contributions cap (as we now know, this is also increasing).

Table 1. Bring-forward thresholds and amounts for 2021/22

Total superannuation balance at 30 June 2021	Non-concessional contribution cap / bring-forward rules
\$1.7 million or more	\$0, no bring-forward
\$1.59 million or more but less than \$1.7 million	\$110,000, no bring-forward
\$1.48 m or more but less than \$1.59 million	\$220,000, two-year bring-forward period
Less than \$1.48 million	\$330,000, three-year bring-forward period

The \$1.59 million threshold above is:

The general transfer balance cap (\$1.7 million)

Less

1 x the annual non-concessional contributions cap (\$110,000)

Importantly, the same table applies to everyone. While the *personal* transfer balance cap will be different for different individuals from 1 July 2021, this table of contribution thresholds depends on the *general* transfer balance cap (\$1.7 million) regardless of the individual's personal cap.

There are a number of important flow-on impacts for clients.

Timing of large non-concessional contributions

Those considering large non-concessional contributions will need to think carefully about whether they do this in 2020/21 or 2021/22.

Consider a 60-year-old client with a \$1 million total superannuation balance at 30 June 2020 who has not previously used the bring-forward rules but is about to do so.

Contributing \$300,000 now locks in the 2020/21 non-concessional cap of \$100,000 for all three years (2020/21, 2021/22 and 2022/23), even though the cap will actually increase next year. All other things being equal, it may be preferable to contribute \$100,000 now and \$330,000 in July 2021.

What about those with slightly more superannuation—say, hovering around the \$1.4 million mark? They have a delicate balance between:

- contributing the full \$300,000 now while they are still below the key threshold for this year (\$1.4 million at 30 June 2020), versus
- contributing only \$100,000 now, increasing the total superannuation balance and possibly impacting their ability to maximise their bring-forward in 2021/22.

For example, if this client's total superannuation balance was instead \$1.35 million at 30 June 2020, a \$300,000 contribution would clearly be possible in 2020/21.

Contributing \$100,000 in 2020/21 instead, however, might mean their balance at 30 June 2021 scrapes over one of the new thresholds (\$1.48 million). Their non-concessional contributions would be limited to only \$220,000 in 2021/22 (a bring-forward period of two years rather than three).

All that said, even this outcome is not such a bad thing. While it might not be as much as they had hoped (\$100,000 in 2020/21 and \$330,000 in 2021/22), the total contributed for the three years up to 30 June 2023 would be \$320,000 (\$100,000 in 2020/21 plus \$220,000 in 2021/22). That is still better than putting the full \$300,000 in now.

Watching unexpected impacts on the bring-forward rules

We all like to think that bring-forward periods are carefully considered and happen exactly when the client meant to use these rules to maximise their non-concessional contributions.

In fact, remember that they are triggered automatically whenever the annual non-concessional cap is exceeded. The contributor has no choice about the period of the bring-forward. If someone with a total superannuation balance of \$1 million at 30 June 2020 has even one cent more than \$100,000 counted for their non-concessional contribution cap in 2020/21, they will automatically lock in a three-year period up until 30 June 2023, and their non-concessional contributions over that time will be limited to \$300,000.

Traps for the unwary are small contribution amounts that have been forgotten about which cause the person to exceed the cap, even though they thought they had only contributed \$100,000.

For example:

- personal contributions to an industry fund to maintain insurance cover
- personal contributions for which a tax deduction has been denied
- spouse contributions
- self-managed superannuation fund (SMSF) expenses paid personally that were not reimbursed
- excess concessional contributions where no action was taken on the excess notice, and so the contributions remained in the fund (remember these only count towards the non-concessional contributions cap if they are *not* refunded).

Double-deduction strategies

A strategy sometimes employed by those who need a large tax deduction in one year but not the next is the 'double-deduction' strategy.

A common example for someone who is (say) no longer receiving employer contributions is:

- contributions up to the concessional contributions cap are made any time during the year (say 2020/21)
- an additional contribution is made in June 2021 but not allocated to the member until July 2021
- a personal tax deduction is claimed for two years' worth of contributions in a single year (because both contributions were made in the same year), but the contributions count towards the relevant cap in different years, avoiding any nasty excesses.

So, what is different now? If that strategy is being adopted for 2020/21, do not forget that the second contribution in June 2021 can be \$27,500. This is because it is being tested against the 2021/22 concessional contributions cap—and by then, the cap will be \$27,500.

An increase in the contribution caps can only be a good thing for SMSF clients. **FS**



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