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SMSF strategies for older clients

Life begins at 70

Three themes

1

Key contribution opportunities

2

Leveraging the power of pensions

3

Headwinds - $3m proposed tax

Contribution opportunities

Many more chances to keep contributing

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Since 1 July 2022:

1. Non-concessionals all the way up to age 75[1], no work test

2. Bring forward up until 75 (last time : year in which turn 75)

3. Concessional contributions up to 75[1], but work test from 67

[1] Actually even slightly later… the 28th of the next month after 75th birthday

Contribution caps in 2023/24

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No change to caps but increased bring forward thresholds

2023/24	
TSB at 30 June 2023	**NCC cap**
< $1.68m	$330,000
$1.68m < $1.79m	$220,000
$1.79m < $1.9m	$110,000
≥ $1.9m	$Nil

3 year period
3 x annual cap

2 year period
2 x annual cap

No bring fwd
1 x annual cap

Based on ***general*** TBC, not personal TBC

Next year?

What could change?

	Transfer Balance Cap (Bring fwd thresholds)	Contribution caps
Current cap / threshold	$1.9m	$27,500 / $110,000
Indexed to	Inflation	AWOTE
What increase is required for indexation **1 July 2024**?	5.12% (Dec 2022 – Dec 2023)	1.79% (Nov 2022 – Nov 2023)
So far this year?	2.22% (Dec 2022 – June 2023)	1.68% (Nov 2022 – May 2023)

If the concessional cap goes to $30k, the non-concessional cap goes to $120k

Contribution caps next year?

Thresholds even higher if TBC changes?

2023/24	
TSB at 30 June 2023	**NCC cap**
< $1.68m	$330,000
$1.68m < $1.79m	$220,000
$1.79m < $1.9m	$110,000
≥ $1.9m	$Nil

3 year period, 3 x annual cap

2 year period, 2 x annual cap

Annual cap only, no bring forward

Possible 2024/25	
TSB at 30 June 2024	**NCC cap**
< $1.66m	$360,000
$1.66m < $1.78m	$240,000
$1.78m < $1.9m	$120,000
≥$1.9m	$Nil

Based on ***general*** TBC, not personal TBC

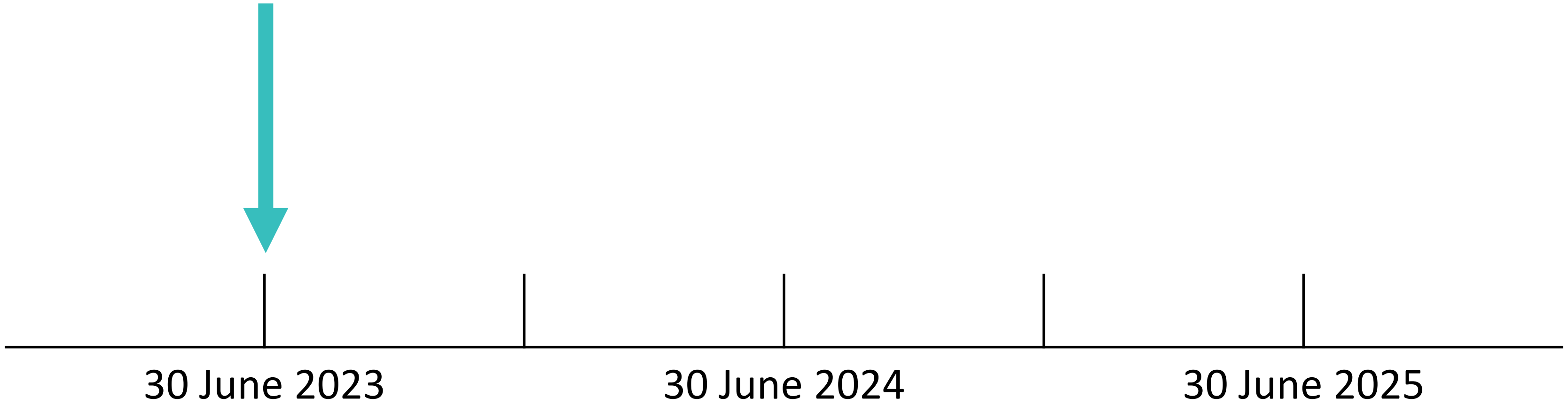
Look ahead?

Joel : Retired (70)

- No contributions in years
- $1.45m ABP (used full TBC in 2017)
- $nil accumulation

Contribution options:

- $330k in 2023/24
- $110k now and wait a bit?



Look ahead?

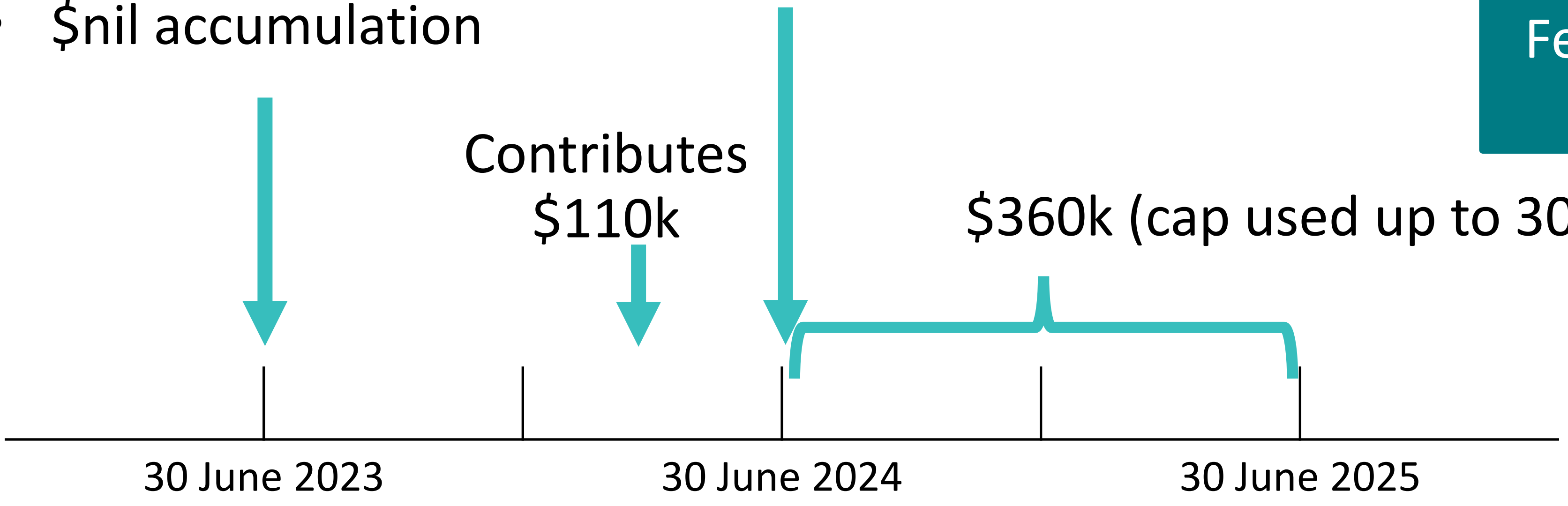
Joel : Retired (70)

- No contributions in years
- $1.45m ABP (used full TBC in 2017)
- $nil accumulation

Now :

- $1.5m ABP
- $110k accumulation

Total $1.61m



What if > $1.66m at 30 June 2024? Still 2 years @ $120k each (and if TBC goes up, higher threshold)

What if caps not indexed? We'll know in February 2024 (not too late)

Re-contribution candidates

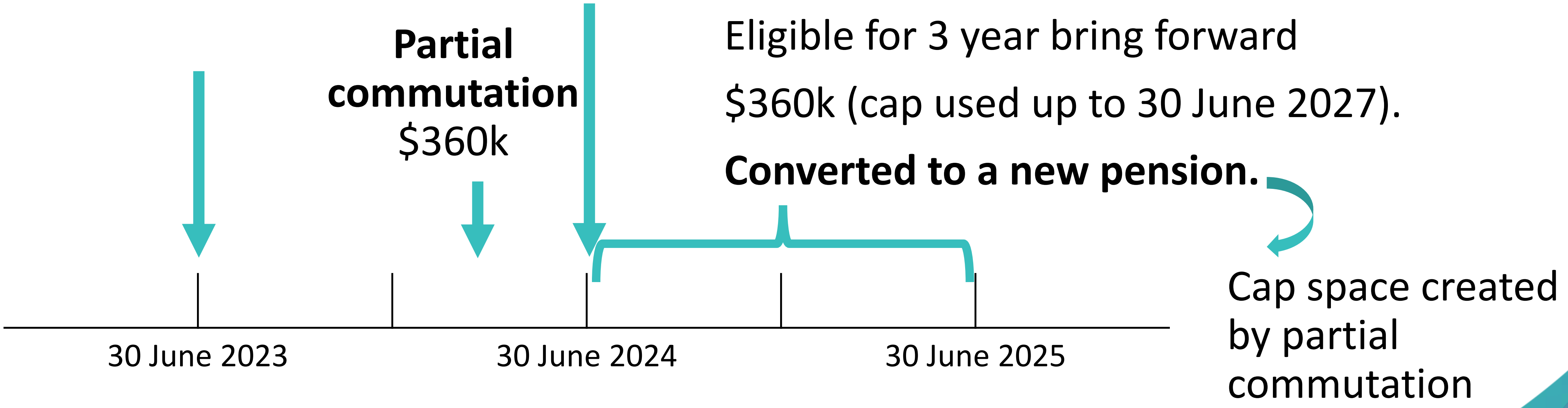
Cliff : Retired (69)

- No contributions in years
- $1.9m ABP (100% taxable)
- $nil accumulation

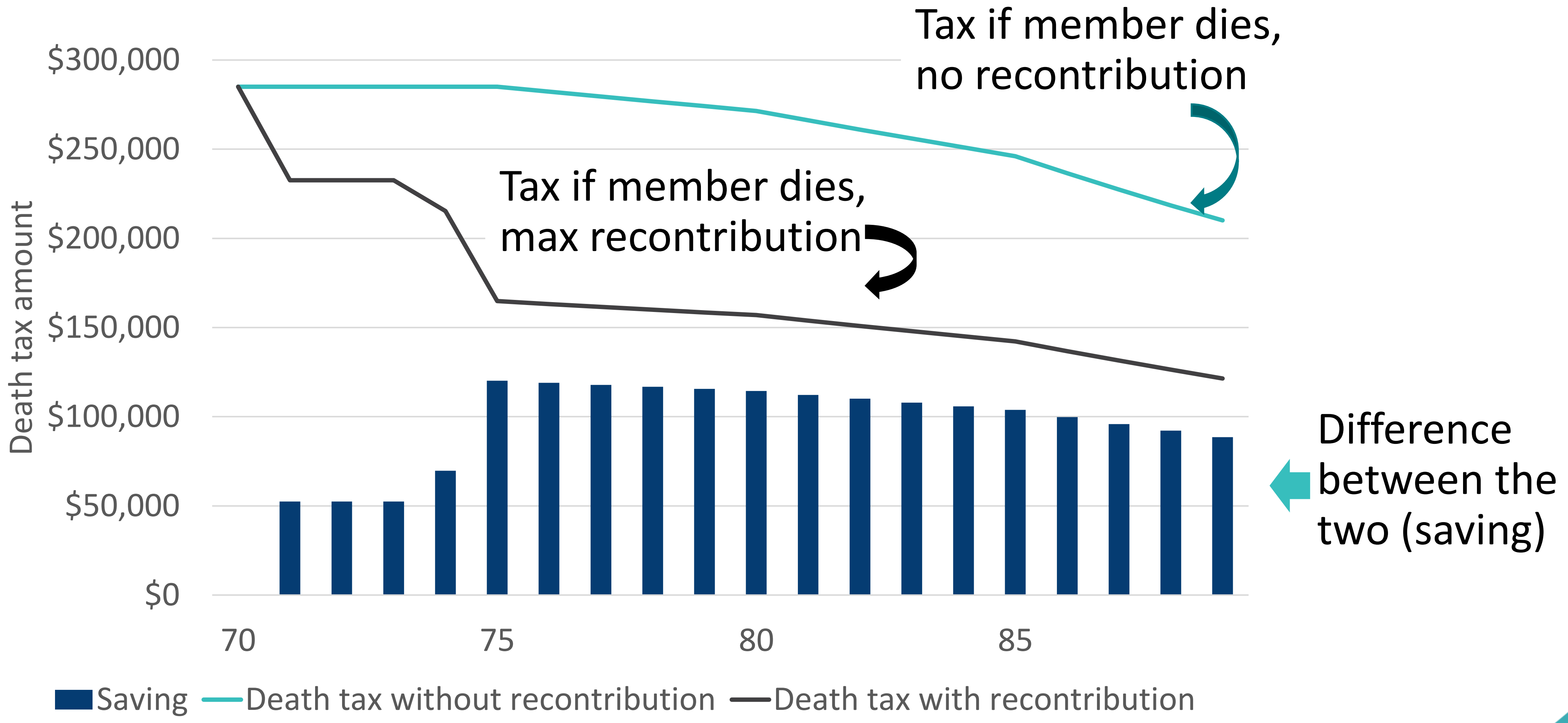
At 30 June 2024:

- $1.54m ABP (growth offsets pension payments)
- Now aged 70 (still < 75)

Caps increase at 1 July 2024 (3 year bring forward threshold is at least $1.66m)



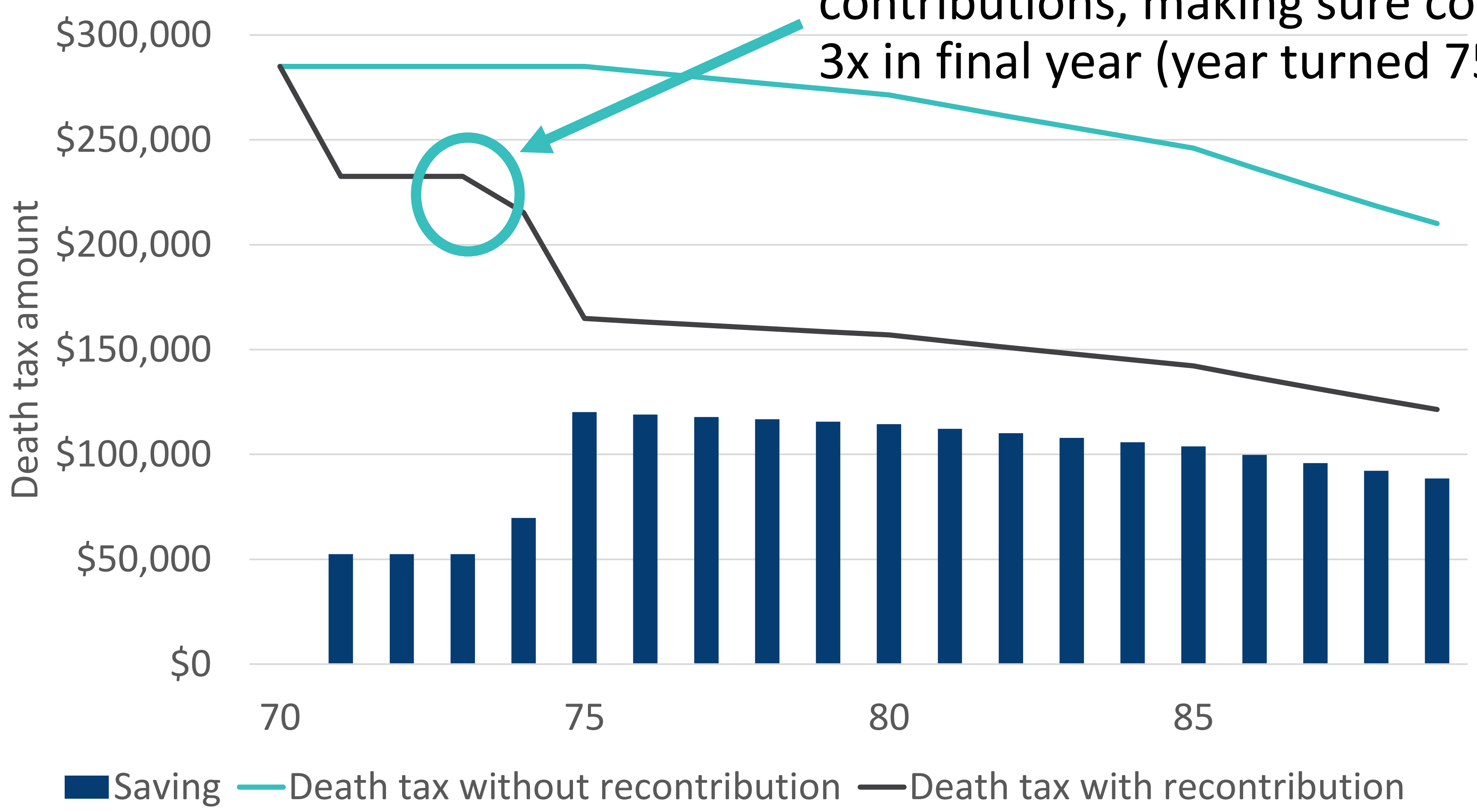
And it could continue:



All inflation adjusted

And it could continue:

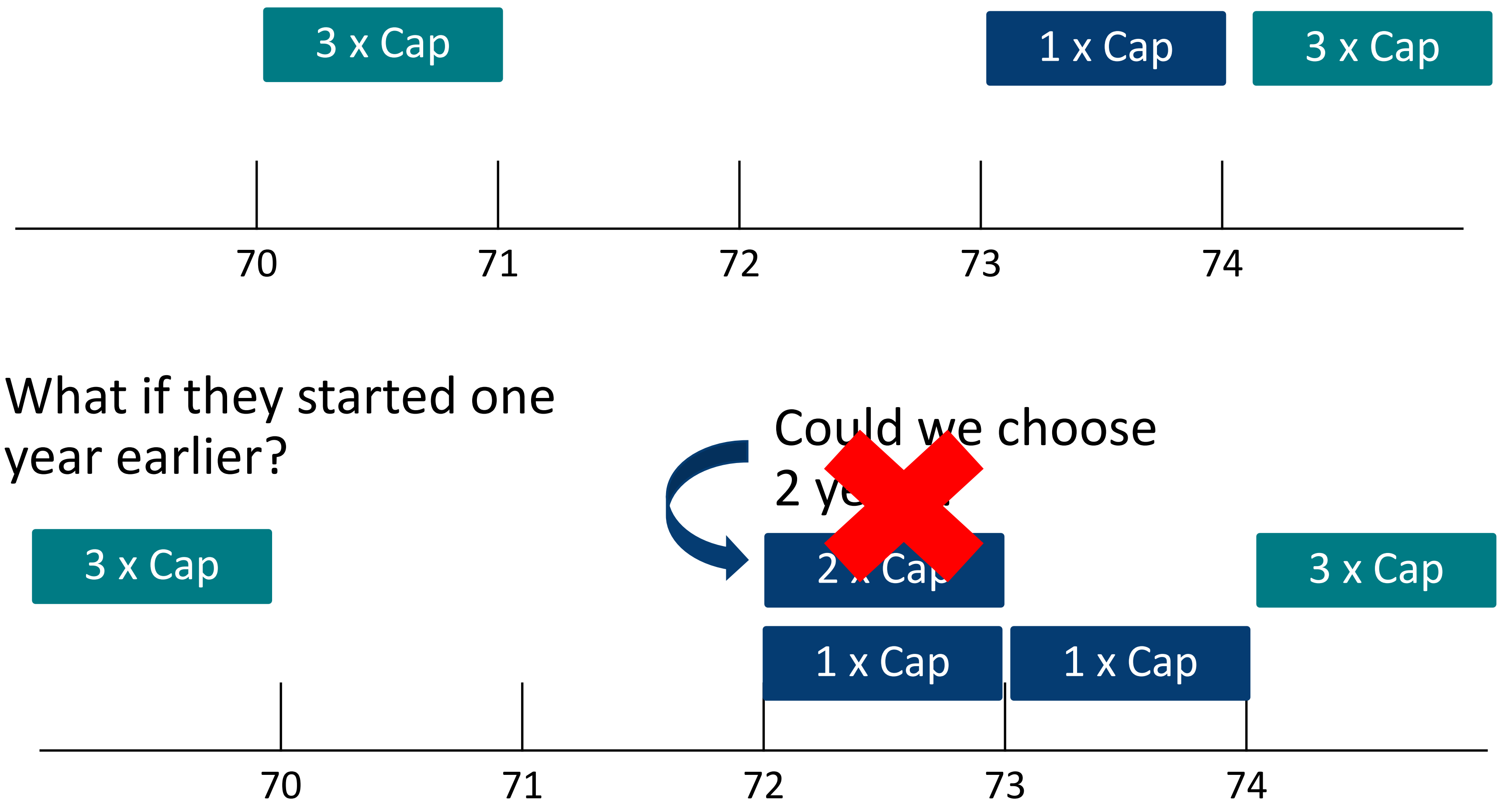
Smaller kink here? Only 1x year's contributions, making sure could do 3x in final year (year turned 75)



Difference between the two (saving)

All inflation adjusted

Timing for older clients



Bring forward cap + period dictated by:

1. Did you exceed the annual cap? (even 1c)
2. What was your TSB?

Recontributions

Critical benefit of SMSFs

- Timing totally in trustee’s control
  - An apparently “complex” set of transactions is simplified
- Isolate new contributions in new pensions with ease
- Multiple pensions are just not problematic
  - Tidy up once you’re finished if necessary
- Can even “re-use” the same cash if dealing with a couple
  - Contributions, pension payments

Pensions

Leveraging the power of SMSF pensions

The power of pensions

They're so great, who wouldn't want more?

Cliff – in our previous example

New pensions (100% tax free)	⬅	Could be several pensions. Different estate planning decisions?
Original pension (100% taxable)	⬅	Take extra payments from here during lifetime

Around 60% of total super

Optimise "standing instructions"

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- Typically, payments in a designated order
- Commutations must be requested ***in advance***
  - So need standing orders made prospectively

1	Minimum pension payments
2	Lump sums from accumulation account
3	Partial commutation from pension accounts

Optimise "standing instructions"

- But sometimes we don't want to touch the accumulation account
  - Personal deductible contributions?
  - Non-concessionals / downsizers
- Key is to think in advance

1	Minimum pension payments
2	Lump sums from accumulation account
3	Partial commutation from pension accounts

Reverse these?

What about the proposed new tax?

Does this unravel any plans? Encourage changes?

In a nutshell

Apply from 2025/26 to individuals with total superannuation balances <u>over</u> $3m at the <u>end</u> of a financial year

3 essential elements

1

Additional **15% tax** on a **proportion** of their superannuation **earnings**

2

Separate tax levied on the **individual** (similar to Division 293 tax)

3

Individual could **choose**:

- Pay the tax from their own resources
- Release $ from super to pay the tax

Earnings? Brad's member statement:

Super at start of year

+ Contributions

− Withdrawals

+ Earnings

Super at end of year

Brad's total super is $5m :

- $2m pension
- $3m accumulation account

$300k downsizer

$100k from his pension

Income, unrealised gains, less expenses and tax

$5.5m

Earnings = $300k in this case

Not <u>all</u> of this is taxed at 15%

How much would be taxed?

First, work out % of Brad's balance > $3m:

$$\frac{\$5.5m - \$3m}{\$5.5m} = 45.45\%$$

So his tax is:

45.45% x $300k x 15% = $20.5k

Brad's % over $3m

Earnings

Tax rate

Most disliked features

Remember – only draft legislation at this stage!

1. Taxes unrealised gains (and losses get carried forward – no refunds!)
2. No indexation of the $3m cap
3. No new condition of release to allow members to take large $ out of super

So what should impacted clients do?

Other than to pay the tax itself

1. Take balance > $3m out?

Maybe. But 2 key issues to consider:

1

New tax makes super worse than it is today. But worse than non super?

Non super better while gains accumulating (no tax on unrealized gains).

Super becomes attractive again when asset actually sold (still get the benefit of ECPI)

<u>Assuming</u> already have income outside super (so high tax rates)

1. Take balance > $3m out?

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?

Maybe. But 2 key issues to consider:

1

New tax makes super worse than it is today. But worse than non super?

Non super better while gains accumulating (no tax on unrealised gains).

Super becomes attractive again when asset actually sold (still get the benefit of ECPI)

2

Beware the cost of taking assets out of super in the first place

Capital gains tax, stamp duty, other costs.

Proposed new tax does not tax gains built up < 30 June 2025. Why bring them forward by realising now?

2. Stop contributing?

- Many contributions have other benefits
- May be worth making them even if decide to withdraw later:

Type	Driver / use
Concessional	Still get a tax deduction "now"
CGT Exempt	Some reduce / remove CGT on business asset sale All come in tax free (recontribution value)
Downsizer	Don't miss the opportunity + possible recontribution

3. Even up balances

May be too late for older clients

1. Contribution splitting
2. Recontributions
3. Member investment choice between couples?

4. Minimise values at the right time

- Maximise values 30 June 2025
  - Minimises "earnings" figure in that first year
- Minimise *increases* in values thereafter
  - Maybe allow for disposal costs, tax allowance on unrealised gains
  - But remember…if we allow too much, something will effectively fall back into "earnings" when we sell the asset
    - Eg tax provision of $100k but only pay tax of $90k, extra $10k will become earnings in the year it's reversed out.

5. Revisit reversionary pensions?

- Remember – 12 month delay for TBC but not TSB
- Will immediately impact % over $3m
- A similar concept – watch timing of contributions (eg downsizer)
  - 30 June or 1 July?

Three themes

1 Key contribution opportunities

2 Leveraging the power of pensions

3 Headwinds - $3m proposed tax

Questions

How we help

We teach you by sharing our knowledge through a range of CPD accredited education and training options.

These are delivered by industry leading experts who live and breathe every aspect of superannuation and SMSFs.

Learn more.

We support you with innovative, smart and practical compliance documentation solutions to help in the everyday running of your business.

You can use our expertise to add to your SMSF bench strength without the FTE cost.

Learn more.

We can do your administration and compliance work for you quickly & efficiently.

Our experienced team offer personalised support, proactive strategies and practical solutions.

Learn more.

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