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BT Technical Podcast #35 – Transcript.

This week's podcast discusses the confirmation this week that the total super balance and transfer balance caps will increase from 1 July 2021, and the potential changes that may occur in the first sitting of Federal Parliament for 2021.

Hello and welcome to our first technical podcast for 2021. My name is Bryan Ashenden, and I have the pleasure of leading the BT Technical Services team – a team of experts that are available to answer any technical advice strategy related queries you may have.

With the shackles starting to come off from COVID lock-downs over the Christmas and New Year period and borders opening allowing freedom of travel between most states, let's hope that 2021 is equally open and barrier-free from an advice perspective.

Certainly, the advice opportunities in 2021 have kicked off with some positive news, albeit we have to wait until the middle of the year for it to take effect – but the planning around it can commence earlier.

Earlier this week, with the release of the December 2020 quarter CPI figures, confirmation was received that the transfer balance cap and total superannuation balance limits will index for the first time since their introduction on 1 July 2017.

Starting with the transfer balance cap, the general transfer balance cap limit will index on 1 July 2021 by $100,000 from the current $1.6 million limit to a new limit of $1.7 million. However, it is important to remember that because of the operation of this cap, only those who have not yet commenced a superannuation income stream that is assessed against the transfer balance cap will gain the full benefit of the indexed threshold.

Where a person has already commenced a superannuation retirement income stream before 1 July 2021, their transfer balance cap will be increased proportionately, by reference to the amount of the gap they have between the amount assessed to their cap and the existing $1.6 million general cap.

So, for example, if a person has $1.2 million assessed currently to their transfer balance account, this is a gap of $400,000 – or 25% of the permissible amount. A person in this position would, from 1 July 2021, receive an increase to their individualised cap amount of $25,000 – or 25% of the cap increase of $100,000 – bringing their personal transfer balance cap limit to a new limit of $1.625 million from 1 July 2021.

However, to complicate matters that little bit more, the gap – or "unused cap amount" is determined based on the highest amount that has ever been assessed to the person's individual transfer balance account. So, for example, if a person had previously maxed out their cap with a superannuation pension commencement value of $1.6 million, but has subsequently withdrawn as a lump sum $200,000 from their pension, even though the amount assessed to their cap will have reduced by that same $200,000 (given a current transfer balance account balance of $1.4 million), they will have no "unused cap amount" available, as it is determined by the highest ever amount assessed. Perhaps the one bit of good news is that the

ATO will automatically calculate the revised cap amounts from 1 July 2021 and it will be visible to clients through their myGov account.

For clients that have not, or do not commence a superannuation income stream before 1 July 2021, they will receive the full increase with a future transfer balance cap of $1.7 million. For clients who have the potential to maximise their transfer balance cap into the future, but are considering now the option to commence an income stream, the benefits of waiting until 1 July 2021 to commence it should be considered, albeit balanced by the potential need to commence accessing funds today. The option of some lump sum withdrawals in the interim may be an alternative consideration.

For clients who will not achieve retirement savings in excess of $1.6 million in super, this indexing of the cap will have no real significance.

At the same time as the increase to the transfer balance cap, there will also be an increase in the total super balance threshold from $1.6 million to $1.7 million. This is the threshold which is measured as at 30 June each year to determine whether it is possible for a client to make a non-concessional contribution in the following financial year, or to make use of the bring forward opportunity (and how much of that opportunity is available).

As it is assessed each year, this coming increase may mean that some clients who were not eligible to make additional non-concessional contributions this financial year because their total super balance was over $1.6 million at 30 June 2020 may become eligible again from 1 July 2021 provided their total super balance at 30 June 2021 is below $1.7 million.

For clients looking to utilise the bring forward opportunity, it is important to remember that if it is triggered in the current financial year, the amount of bring forward available (ie whether 2 years or 3 years) is determined by the gap to the current $1.6m total super balance threshold and is not recalculated (for example expanded from 2 to 3 years) when the new threshold takes effect.

It is also important to note that at this stage there has been no indexation to the annual contribution thresholds of $25,000 for concessional contributions and $100,000 for non concessional contributions. With indexation of these amounts determined with reference to AWOTE, it will be late February or early march before we know if indexation of these will occur.

Finally, it is worth noting that Federal Parliament resumes next week on 2 February 2021 and sits for 3 days. Parliament doesn't sit the following week, but then resumes the week after on 15 February for 2 weeks of sittings. With Royal Commission measures, such as annual consent legislation, and the Bill to increase the age for bring forward non concessional contributions from 65 to 67 still be passed, February could certainly be a busy time for more legislative changes.

Remember if you have any technical advice strategy questions, you can call our BT Technical Services team on 1800 655 901 or send the team an email at technical@btfinancialgroup.com. .

And you can also join us for our fortnightly BT Academy webinars this year, with our next webinar scheduled for 10 February 2021 when Tim Howard will be presenting on the topic of understanding excess contributions. To register, head to www.bt.com.au/professional and follow the link to the BT Academy webinars.

Until next week, bye for now!