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What could the 2021/2022 Budget mean for super?

The announced changes to super from the 2021/2022 Federal Budget are over 12 months away from taking effect. But what opportunities could they present to clients if enacted? In this week's podcast we look at this in more detail, with a focus on the increased ability to contribute to super for longer.

Hello and welcome to today's BT TechKnow podcast. I'm 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 a week having passed since the delivery by the Government of the 2021/22 Federal Budget, and the Opposition having delivered its response, this week I thought it may be worth considering just where things stand, what we might see, and also, the contribution changes in a little more detail.

So, let's start with the Opposition's response which was delivered by the Honourable Anthony Albanese, Leader of the Labor Party, in the traditional time slot of the Thursday night following the Budget. Now, from a financial planning perspective, and the major announcements from the Government, particularly around superannuation, in the Budget, the opposition's response was largely a non-event. Labor's budget response didn't talk to super. They didn't comment on whether they supported or opposed announcements on removing the $450 per month threshold before super guarantee currently becomes payable. They didn't comment on whether they supported the removal of the work test for certain contributions up to age 75. They didn't comment on the proposal to allow members to exit legacy retirement income streams.

Whilst in prior year Budgets we often hear the Opposition saying why they will oppose a number of Budget announcements, the lack of similar comments this year is not actually surprising. And this is because of the timing. Many measures, including the superannuation related ones I mentioned earlier, are stated to take effect from the next 1 July that occurs after the Royal Assent of the legislation that enables the change, with a follow-on comment from the Government that they expect this to be 1 July 2022.

You can read this as code for "we will legislate for these changes if we are re-elected at the next Federal election". So there is no rush for this legislation to be introduced. The opposition knows it doesn't have to oppose (or support) the measures at this point in time, so there is no need to comment on them.

With these announcements therefore clearly being the start of the release by the Government of its future superannuation policy for the upcoming election, I thought it may be worth looking at a couple of the measures in a little more detail, given some of the questions that have arisen.

If we start with the measure to remove the work test requirement for non-concessional and salary sacrifice contributions through to age 75, the expansion for non-concessional contributions is certainly a positive outcome for those looking to contribute more later in life. It can also help those who have been waiting for the bring-forward legislation currently before Parliament – to lift the qualifying age to access the bring forward measure from the year in which you turn 65 to that in which you turn 67 – to be passed. But with only seven sitting days of the Senate remaining before the end of the financial year, the chances of the Bill passing and you then having the ability to advise your clients, provide a Statement of Advice and implement the advice within a period of less than two weeks remains slim.

If the Bill doesn't pass, and this proposed change in the Budget does get through, at least those who miss out now will have the ability to contribute into the future. Interestingly, the Government's announcement on this measure stated that it included the bring forward opportunity being expanded through to 75 also, but whether than means in the year you turn 75 you could still do a three year contribution (so covering the years you are 76 and 77 also), or whether it perhaps stops at the year you turn 73 is not clear.

The ability to salary sacrifice through to age 75 without the need to meet a work test does sound a little odd – because you would have to be working to earn a salary that could then be sacrificed. But what it would do is allow for those who don't actually meet the 40 hours with a 30 day period to salary sacrifice (for example, those who work one day a week and may fall just short of the number of hours).

And what about the need to work to do a personal deductible contribution? I mean, if you were working, wouldn't you just salary sacrifice the wages anyway? The rationale behind this one is relatively simple I think – it is designed to prevent people from offsetting a large capital gain by making a deductible contribution to super, and then withdrawing it soon after tax free.

Now this ability to contribute non concessional contributions through to 75 is also a positive when combined with the downsizer contribution (and its changes). If a client sells their principal residence between the ages of 60 and 65, they will be able to access the downsizer opportunity and contribute up to $300,000 per person to super, with the proposed lowering of the qualification age to 60. If they then move to another property and live in it another 10 years, before selling again – perhaps as part of moving to an aged care facility – they can't access the downsizer opportunity a second time, but if they are still under 75 and have less than $1.7 million in super (under the threshold applicable form 1 July this year which no doubt will be higher after that 10 year period) – they could contribute some more simply as a non-concessional contribution. A new and improved opportunity to continue self-funding for retirement via super.

Now of course, this is all subject to passage of the relevant legislation, which could be 12 months away. We still possibly have an expanded super policy to be released by the Government (perhaps addressing more issues from the Retirement Income Review) and the release of a super policy from the Opposition, and then an election – with its outcome really to determine what the future of super will truly look like. But it doesn't mean you can't start having some conversations with your clients about what the future could look like.

Now, as always, 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 join us for our fortnightly BT Academy technical webinars where we dive in more depth into various technical and regulatory matters. Our next session is scheduled for Wednesday 2 June 2021, when Matt Manning; one of our BT Technical Consultants will be presenting 'Who would've thunk it? The 1 July 2021 super changes'. In that session, Matt will cover what the indexation of the super caps and thresholds will mean for clients and strategies you employ for them.

To register, head to www.bt.com.au/professional and follow the links to the BT Academy webinar series. You can also view previous webinars and all sessions qualify for CPD points.

Until next time, bye for now.