Prepare for Life

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How to boost your super with a lump sum

If you're lucky enough to have received a windfall, perhaps an inheritance or a retrenchment payout, your first decision will be what to do with it.

Assuming you have decided against a shopping splurge, finding the best place to invest a lump sum is all about the effect on your tax bill and how soon you will need access to the funds.

For those interested in investing their lump sum for a longer term, superannuation is one approach because of its tax benefits.

But be aware that, while super can be a tax-effective investment, there are limits on how much you can pay into your super without having to pay extra tax. These are known as contribution caps.

Different types of contributions

There are two types of super contributions you can make – concessional and non-concessional – and contribution caps apply to both.

Concessional contributions are paid into super with pre-tax money, such as the compulsory contributions made by your employer. They are taxed at a rate of 15 per cent.

Non-concessional or after-tax contributions are paid into super with income that has already been taxed. These contributions are not taxed.

So, the tax you pay depends on whether:

- the contribution was made before or after you paid tax on it
- you exceed the contribution caps
- you are a high income earner (If your income and concessional contributions total more than $250,000 in a financial year, you may have to pay an extra 15 per cent tax on some or all of your super contributions.)

Investing after-tax income

There are many different types of after-tax contributions that can be made to your super including contributions your spouse may make to your fund, contributions from your after-tax income, an inheritance, a redundancy payout or the proceeds of a property sale.

Based on current rules, the annual limit for non-concessional or after-tax contributions is $110,000. You can also bring-forward two financial years' worth of non-concessional contributions and contribute $330,000 at once but then you can't make any further non-concessional contributions for two financial years. Note that are certain limitation on these types of contributions.

It is also useful to note that, under certain conditions, there are some types of contributions that do not count towards your cap. These include: personal injury payments, downsizer contributions from the proceeds of selling your home and the re-contribution of COVID-19 early release super amounts.

The Downsizer scheme allows the contribution of up to $300,000 from the proceeds of the sale (or part sale) from your home. You will need to be above age 55 but there is no upper age limit, the home must be in Australia, have been owned by you or your spouse for at least 10 years, the disposal must be exempt or partially exempt from capital gains tax and you have not previously used a downsizer contribution.

Giving your super a boost

A review of your super balance and some quick calculations about your projected retirement income might inspire you to give your super a boost but not everyone has access to a lump sum to invest.

A strategy that uses smaller amounts could include any amount from your take-home pay. These contributions will count towards your non-concessional or after-tax cap.

Alternatively, you add to your super from your pre-tax income using, for example, salary sacrifice. These types of concessional or pre-tax contributions attract a different contribution cap: $27,500 per year, which includes all contributions made by your employer.

If your super fund balance is less than $500,000, your limit may be higher if you did not use the full amount of your cap in earlier years. You can check your cap at ATO online services in your myGov account.

The rules for super contributions can be complex so give us a call to discuss how best to maximise your benefits while avoiding any mistakes.

LIFE insurance: *a financial safety net*

With the cost of living on the rise, it's more important than ever to have a financial safety net that protects you and your family in case the unexpected happens.

Most Australian employees have some form of life insurance, often through their superannuation fund, but many of us tend to 'set and forget'.

To make the most of your life insurance policy, it's useful to understand how it works, and how premiums and payments are affected by tax.

Various types of life insurance

Life insurance is an umbrella term for a range of policies that cover different situations. They include:

- **Life cover** which pays out after your death to someone you have nominated.
- **Income protection** covers you if you're unable to work because of illness or injury.
- **Total and permanent disability (TPD)** insurance provides medical and living costs if you become permanently disabled.
- **Accidental death and injury** cover pays a lump sum if you die or are injured.
- **Critical illness or trauma** insurance pays a lump sum to cover medical expenses for major medical conditions.
- **Business expenses** insurance covers ongoing fixed business costs if you're a business owner suffering serious illness or injury.

Tax benefits and deductions

The premiums for most types of life insurance are not tax deductible, but there are exceptions. Premiums for income protection held outside of super may be tax-deductible. Business expenses insurance premiums may also be tax deductible.

The tax treatment of benefits paid out by policies also varies according to the type of policy and your situation, so it's important to talk to us.

Generally, life cover held through super and paid to someone who's financially dependent on you (typically a spouse and children under 18 years) is not taxed. But if the beneficiary isn't your financial dependent, insurance benefits may be taxable.

Income protection insurance payments must be declared on your tax return and will be taxed at your marginal rate, just like your usual salary. Business expense insurance payouts may also taxable.

Inside super or outside?

Some of these insurances, particularly life cover, income protection and TPD, can be purchased through your super fund. Most people have a basic level of cover held this way, but you should check to see if it's adequate for your needs.

If you are aged under 25, have a super balance of $6,000 or less, or your account is inactive, you will need to ''opt in" if you want insurance cover.

If you have a self-managed super fund (SMSF), you're required to consider whether to hold life insurance for each of the fund's members, although there's no obligation to buy.

Super pros and cons

You'll need to do the sums for your circumstances, which is where an adviser can assist, but there may be an advantage to using your super to pay the premiums. The main reason is cost.

Sometimes, the buying power of larger super funds allows them to negotiate competitive pricing for insurance products.[i] It's not always the case, so you'll need to shop around to make sure you're getting the best deal.

Another potential financial benefit in paying the monthly premiums out of your super account, is that you're using funds taxed at 15 per cent. Whereas, if you pay the premium from your own bank account, you'd be using funds already taxed at your marginal tax rate, which may be higher. That means your pre-tax dollars are working harder and you've still got your cash in the bank.

The main drawback to paying insurance premiums through super is that you'll be reducing your super balance, which means less for retirement. However, you could choose to boost your balance using salary sacrifice or personal contributions.

Your safety net checklist

1. **Decide on who and what needs to be financially protected if something should happen to you.**
2. **Weigh up the best type of life insurance to meet your needs and shop around.**
3. **Be clear about any tax implications of an insurance payout.**
4. **Make sure the policy benefit is adequate and check it annually.**

Deciding on the type of life insurance you need can be tricky, so give us a call to discuss your insurance needs.

i Insurance through super - Moneysmart.gov.au

WILL THESE SUPER CHANGES AFFECT *you*?

As our superannuation balances grow larger, it makes more sense than ever to keep track of the many rules changes that have recently happened or are coming up soon.

So, check out these latest changes in case they affect you.

Super bonus for workers

For employees, the new financial year kicks off with an increase in the Superannuation Guarantee paid by employers. It is now 11 per cent of eligible wages.

This rate will increase by 0.5 per cent each year until it reaches 12 per cent in 2025.[i]

The Australian Tax Office will also be cracking down on employers who don't pay on time or at all.

Minimum pension drawdown increased

A COVID-19 measure to reduce the minimum drawdown required on super pensions ended on 1 July 2023.

Investors receiving super pensions and annuities must withdraw a minimum amount each year. The federal government reduced this amount by 50 per cent over the last four financial years to help those wanting to protect their capital as the markets recovered from the chaos of the pandemic.

You can find out more by visiting the ATO's minimum pension standards.

Transfer balance cap lifted

The maximum amount of capital that can be transferred to your super pension increased to $1.9 million from 1 July 2023.[ii]

The transfer balance cap limits the total amount of super that can be transferred into a tax-free pension account. This is a lifetime limit.

The cap is indexed and began at $1.6 million when it was introduced in 2017. Increases in the cap are tied to CPI movements, in $100,000 increments.

Proposed tax for large balances

Investors with super balances of $3 million or more will lose the benefit of super tax breaks on earnings under currently proposed legislation changes intended to be effective from 1 July 2025.

Under these proposed changes, taxes on future earnings will be increased to 30 per cent from the current rate of 15 per cent, although they will continue to benefit from more generous tax breaks on earnings from the funds below the $3 million threshold.

Other recent changes

A number of changes announced in both federal budgets last year have also been slowly introduced over the past 12 months.

In one major change, the minimum age was lowered for those able to invest some of the proceeds of the sale of their homes into super, known as a 'downsizer contribution'.

From 1 January 2023, if you are aged 55 or older, you can now contribute to your super up to $300,000 (or $600,000 for a couple) from the sale of their home.

The home must be in Australia and owned by you for at least 10 years.

Another significant reform for many has been the removal of the work test for those under 75, who can now make or receive personal super contributions and salary sacrificed contributions. (Although the ATO notes that you may still need to meet the work test to claim a personal super contribution deduction.)

Previously if you were under 75, you could only make or receive voluntary contributions to super if you worked at least 40 hours over a 30-day period.

While caps have been lifted and programs expanded, at least one scheme has not changed. The Low Income Super Tax Offset (LISTO) threshold remains at $37,000. LISTO is a government payment to super funds of up to $500 to help low-income earners save for retirement.

If you earn $37,000 or less a year you may be eligible a LISTO payment. You don't need to do anything other than to ensure your super fund has your tax file number.

Finally, a project that may pay off down the track, the Federal Budget included continued funding for a superannuation consumer advocate to help improve investors' outcomes.

Expert advice is important to help navigate these changes over the coming year. Call us for more information.

i https://www.ato.gov.au/Business/Small-business-newsroom/Lodging-and-paying/The-super-guarantee-rate-is-increasing/

ii https://www.ato.gov.au/Individuals/Super/Withdrawing-and-using-your-super/Transfer-balance-cap/

Our Prepare for Life Newsletter provides insight to current financial matters and includes special feature articles that are of relevance to many of our valued clients.

Regards,
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