We enclose a summary of future changes to Superannuation for both Employers and Employees effective from 1 July 2021 for the exclusive use of clients of The Mischel & Co Group of Companies.

Dear Client,

Changes from 1 July 2021 will impact on how much money you can contribute to superannuation and how much you can have in your retirement phase Pension Account.

Here's an overview, including key takeaway for clients looking to get the most out of their savings in retirement.

What are the changes?

1) The compulsory superannuation guarantee contribution (SGC) rate will increase to 10% (up from the current rate of 9.5%) for all eligible employees;
2) Concessional contribution cap will increase from $25,000 to $27,500 per annum;
3) Non-concessional contribution cap will increase from $100,000 to $110,000 per annum;
4) Under the recent Federal Budget, the Government announced its intention to remove the $450 threshold from 1 July 2022 to benefit low-income earners. This measure has not yet been legislated.
5) Transfer Balance Cap will increase from $1.6m to $1.7m;

In general, your superannuation is either in an

a) accumulation account (when you are building your super),
b) a retirement account (when you meet preservation age and certain conditions of release and can withdraw your super), or
c) in between when you are transitioning to retirement (when you reach perseveration age, are working reduced hours and take some of your superannuation as a pension).

SUPER GUARANTEE RATE INCREASE TO 10%

On 1 July 2021, the Superannuation Guarantee (SG) rate will rise from 9.5% to 10% – the first rise since 2014. It will then steadily increase each year until it reaches 12% on 1 July 2025.

This increase will require employers to contribute an additional 0.5% to meet their SG obligations under the Superannuation Guarantee (Administration) Act, however the 0.5% increase does not mean that everyone gets an automatic pay increase, this will depend on the employment agreement (i.e. those on superannuation-inclusive package arrangements versus those who are paid superannuation on top of cash income).

Employers will need to ensure that they pay the correct SG amount in the new financial year to avoid the superannuation guarantee charge and they should start planning now how this SG increase will be implemented and communicated to employees.

Where employee salaries are paid at a point other than the last day of the month, ensure the calculations are correct across the month (i.e. for staff paid on the 15th of the month they are paid the correct SG rate of 10% for June and July in their pay and not just the June rate of 9.5%).

Annual increases in the SG rate

The minimum SG rate is currently legislated to rise over the next 5 years as set out below:

	SG rate
1 July 2020 – 30 June 2021	9.5%
1 July 2021 – 30 June 2022	10%
1 July 2022 – 30 June 2023	10.5%
1 July 2023 – 30 June 2024	11%
1 July 2024 – 30 June 2025	11.5%
1 July 2025 – 30 June 2026	12%

Superannuation salary packaging arrangements will also need to be reviewed – employers should ensure that the calculations are correct and the SG rate increase flows through. We outline below some of the issues that employers should consider in the context of the increase to the SG obligations from 1 July 2021.

Employees remunerated under a superannuation-inclusive package

Where an employee is remunerated through a superannuation-inclusive package, in the absence of a remuneration review, their take-home cash payments will likely reduce from 1 July 2021. As such, we recommend employers consider communicating the potential decrease with their employees as early as possible to avoid any queries or complaints arising.

Alternatively, where employers are considering implementing a pay increase to ensure consistency in take-home cash payments, this will need to be appropriately modelled, budgeted and communicated.

Employees receive SG contributions on top of their cash income

Similarly, employers will need to incorporate the increase in SG payable in budgeting for upcoming employee benefits, where an employee's SG is paid on top of their cash income. This budgeting will also need to factor in the overall cost impact where there are increases to underlying pay (for example, salary/wage increases), noting that this will result in a dual increase to both superannuation and cash income.

What do you need to do?

- Speak to your payroll software provider to ensure they are on top of this rate change;
  - For Xero clients, the rate changes will be automatically applied based on the payment date of your pay runs only if the Statutory Rate option was set up to your employees' pay templates. You will still need to check that the correct SG rate has been applied when processing your first pay run after 1 July 2021.
  - For MYOB clients, MYOB are still working on how they will manage the SG change within their software and more information will be provided with their next version update.
- Any individual agreements with an SCG rate of more than 9.5%, but less than 10% must be reviewed;
- Notify your employees, they may need to review their Salary Sacrifice or after-tax contributions arrangements;
- Remuneration Packages will need to be updated; this could mean a pay decrease for employees. For example; an employee earning $100,000.00 package with the current 9.5% superannuation contribution, they were receiving before tax $91,324.20, however, with the super rate increasing to 10%, the before-tax pay will be decreasing to $90,909.09;
- It is a good opportunity to do some housekeeping, and ensure your super obligations have been met (super payments and calculations).

AMOUNT YOU CAN CONTRIBUTE TO SUPER WILL INCREASE

Indexation will also be applied to the concessional and non-concessional contribution caps from 1 July 2021 an increase in the caps for the first time since 1 July 2017. These new contribution caps will apply from 1 July 2021 as follows:

Cap	Current cap	Cap from 1 July 2021
Concessional contributions cap	$25,000	$27,500
Non-concessional contributions cap	$100,000	$110,000

The bring forward rule

The bring forward rule enables you to contribute up to three years' worth of non-concessional contributions in the one year. That is, from 1 July 2021, you could contribute up to $330,000 to your superannuation in one year. You can use the bring forward rule if you are 64 or younger on 1 July of the relevant financial year of the contribution and the contribution will not increase your total super balance by more than your transfer balance account cap.

If you utilised the bring forward rule in previous years, your non-concessional cap will not change. You will need to wait until your three years has expired before utilising the new cap limit.

1 July 2017 – 30 June 2021		After 1 July 2021	
Total Superannuation Balance (TSB)	**Contribution and bring forward available**	**Total Superannuation Balance (TSB)**	**Contribution and bring forward available**
Less than $1.4m	$300,000	Less than $1.48m	$330,000
$1.4m -$1.5m	$200,000	$1.48m – $1.59m	$220,000
$1.5m – $1.6m	$100,000	$1.59m – $1.7m	$110,000
Above $1.6m	Nil	Above $1.7m	Nil

WHO IS ELIGIBLE FOR SUPERANNUATION?

Generally, superannuation contributions must be paid for:

- an employee aged 18 or over who earns $450 or more (before tax) per calendar month; and
- an employee under age 18 working over 30 hours per week, who earns $450 or more (before tax) a calendar month.

If you are working as a contractor, you may be eligible for Super Guarantee (SG) Payments, even if you hold an Australian Business Number (ABN). Contractors who have a contract that is mainly for their personal labour and skill rather than for a result, and who must perform the contracted work personally, should be paid the SG.

In situations where the employer contracts a company, trust or partnership rather than a particular person to provide the labour, the contractor is generally not eligible for SG payments.

You are NOT required to make super payments for employees who are:

- paid less than $450 (before tax) in a calendar month (see note below);
- aged under 18 years of age and working 30 hours or less per week;
- non-resident employees paid for work done outside Australia;
- resident employees paid by non-resident employers for work done outside Australia;
- covered by bilateral superannuation agreements with other countries;
- certain senior foreign executives who hold certain visas or entry permits;
- paid to do work of a domestic or private nature for not more than 30 hours per week (part-time nanny or housekeepers for your personal home);
- members of the various Defence Forces (the Defence Forces has a scheme called Military Super);
- high-income earners with multiple employers who have ATO approval to opt-out of receiving super with an exemption certificate for a specific period of time.

NOTE:

Currently, employees need to earn $450 per month to be eligible to be paid the superannuation guarantee. This threshold will be removed so all employees will be paid super guarantee regardless of their income earned. The measure will have effect from the start of the first income year after Royal Assent of the enabling legislation, which the Government expects to have occurred prior to 1 July 2022.

WHAT HAPPENS IF I HAVE SEVERAL JOBS?

From 1 January 2020, if you have multiple employers you can apply to opt out of receiving SG contributions from some of your employers so you don't unintentionally go over your concessional (before-tax) contributions cap.

To be eligible to opt out, you must have more than one employer and expect the total of all your employers' concessional contributions to exceed your concessional cap for the financial year.

Employees in this situation can submit *a Super guarantee opt out for high income earners with multiple employers* form to the ATO. You then receive an SG employer shortfall exemption certificate to give to one or more of your employers to release them from their SG obligation.

Your employer can't apply for an exemption on your behalf and you must receive SG contributions from at least one of your employers each quarter. It's important to note your application must be lodged at least **60 days before** the start of the next quarter.

HOW WILL THE TRANSFER BALANCE CAP IMPACT ME?

The amount of money you can transfer from your accumulation account into your tax-free retirement account is limited by a transfer balance cap (TBC). From 1 July 2021, the current $1.6m cap will be indexed to $1.7m but not everyone will benefit from the increase.

From 1 July 2021, there will not be a single cap that applies to everyone. Instead, every individual will have their own personal TBC of between $1.6 and $1.7 million, depending on their circumstances.

You are accumulating super

If you are building your superannuation (in accumulation phase) and not withdrawing it, indexation of the Transfer Balance Cap is a good thing because from 1 July 2021 you will be able to access more of your superannuation tax-free. If you start taking your superannuation after 1 July 2021, for example if you meet a condition of release and retire, your transfer balance cap will be $1.7m instead of the previous cap of $1.6m. Essentially, if you have never had a transfer balance account credit, then the full indexation is available to you.

You have started a Pension

If you started a Pension account before 1 July 2021 and have already had a credit added to your transfer balance account (TBC), then your new TBC will be between $1.6m and $1.7m depending on the balance of your transfer balance account between 1 July 2017 and 30 June 2021.

If your account reached $1.6m or more at any point during this time, your TBC after 1 July 2017 will remain at $1.6m.

If the highest credit ever in your account was between $1 and $1.6m, then your TBC will be proportionally indexed based on the highest ever credit balance your transfer balance account reached.

For example, if you started a retirement phase income stream valued at $1.2m on 1 October 2018 and this was the highest point of your account before 1 July 2021, then your unused cap is $400,000. This unused cap amount is used to work out your unused cap percentage (400k/1.6m=25%). The unused cap percentage is then applied to $100,000 ($100k*25%=$25k) to create your new TBC of $1,625,000.

The Australian Taxation Office (ATO) will calculate your personal TBC based on the information lodged with them (this will be available from your myGov account linked to the ATO).

If you have any questions in relation to the above or if there are personal funds that you would like to move into superannuation and achieve a 15% tax rate on the earnings from these funds, please contact us to discuss the possibilities further.

The information contained in this newsletter is a combination of the interpretation and thoughts of this firm together with the various government, institutional and professional association reporting that has been made available.

The content of this information memorandum is general information only and hasn't taken your circumstances into account. It's important to consider your particular circumstance before deciding what is right for you as it does not reflect all the superannuation legislation and announcements but simply highlights those points which we believe are most likely to affects our clients.

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