PLANET WEALTH

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Newsletter - August 2021

Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss "Salary sacrificing into super" and provide you with information on "Super bring-forward rules" and "Information on home loan"

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.
In the meantime we hope you enjoy the read.

All the best,
Planet Wealth

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Salary sacrificing into super – how it works

Salary sacrificing into super involves reducing your take-home pay to put more money away for your retirement. See what you need to know.

Salary sacrificing into super is where you choose to have some of your before-tax income paid into your super account by your employer. This is on top of what your employer might pay you under the super guarantee, which is no less than 10% of your earnings, if you're eligible.

Making salary sacrifice contributions does involve a reduction in your take-home pay, but it also means you could increase your retirement savings while also potentially reducing what you payin tax. If you're thinking about setting up a salary sacrifice arrangement, here are some things to consider.

What can I contribute?

You decide how much you want to contribute (as long as you don't exceed super cap limits) and whether it's a one-off payment, or something you can afford to do regularly.

How much I can contribute?

You can't contribute more than $27,500 per year under the concessional super contributions cap or penalties will apply. It's also important to note that contributions made into your super as part of a salary sacrifice arrangement are not the only contributions that count toward this cap.

Other contributions that count toward your concessional contributions cap typically include:

- Compulsory contributions your employer pays under the super guarantee, including contributions from any other jobs you may have held in the same financial year.
- Contributions you make using after-tax dollars which you choose to claim a tax deduction for.

What are the potential tax benefits?

If you choose to reduce your before-tax income by salary sacrificing into super, a potential benefit is you may be able to reduce what you pay in income tax for the financial year.

That's because contributions made via a salary sacrifice arrangement are only taxed at 15% if you earn under $250,000 a year, or 30% if you earn $250,000 or more a year, with most people generally paying more tax on their income than they do on salary sacrifice contributions.

There could also be further tax benefits as investment earnings made inside the super environment also benefit from an equivalent tax saving, which could make a difference when you do eventually withdraw your super savings and retire.

How do I set up a salary sacrifice arrangement?

If salary sacrificing into super is right for you, here's a quick checklist for how you could set this up.

Make sure your employer offers salary sacrifice

You will need to confirm with your payroll team at work that your employer offers this type of arrangement. If not, you may be able to achieve broadly the same benefits by claiming a tax deduction on contributions you may choose to make using after-tax dollars, but you'll need to consider whether this is right for you.

Decide how much you want to salary sacrifice, how often and when

You might want to salary sacrifice on an ongoing basis, or as a one-off. Also, you can't salary sacrifice income that you've already received, such as a bonus or leave entitlements, so you'll need to act well before this money is paid into your regular bank account if you want to salary sacrifice it.

Notify your employer and get any agreement in writing

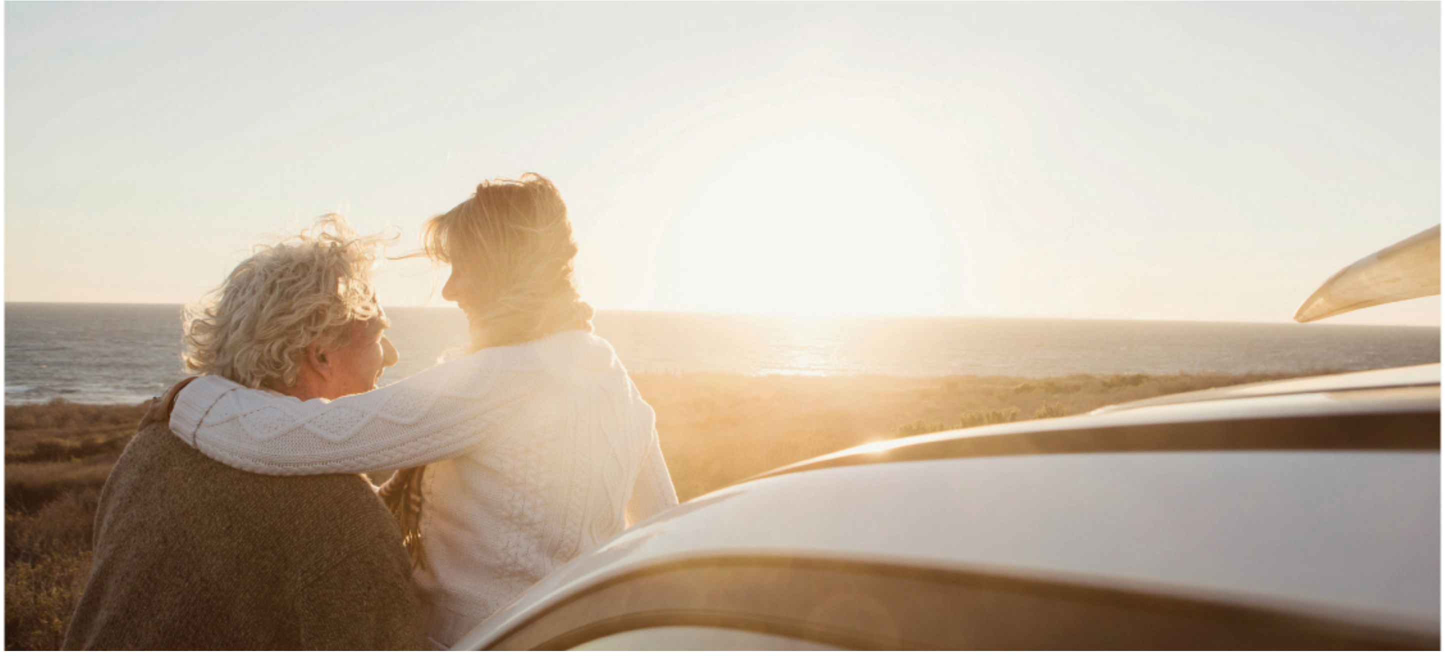
If you can salary sacrifice (and you know how much, how often and when you want to do it), contact your payroll team at work to find out what information they need. Ask them to confirm in writing when your contributions will start being paid, so you can check that the contributions are being received into your super account.

Make sure you don't exceed the concessional contributions cap

If you do exceed the cap, additional tax and penalties may apply. Remember, the cap applies to all concessional contributions, whether they're made into one or more super accounts.

It's also worth noting that in addition to your annual cap, you may also be able to contribute unused cap amounts accrued since 1 July 2018, if you're eligible.
This broadly applies to people whose total super balance was less than $500,000 on 30 June of the previous financial year.

Everyone's different, so if you're thinking about setting up a salary sacrifice arrangement, consider your circumstances and whether it's the right thing for you.



Super bring-forward rules now apply to more people

More Australians can make up to three years' worth of non-concessional super contributions in the same financial year, with the government increasing the age limit from under 65 to under 67.

In recent weeks the government announced that Australians aged 65 and 66 (to be specific, under the age of 67 at the start of the tax year), would be able to make up to three years of non-concessional super contributions under bring-forward rules. Previously, bring-forward rules only applied to those under age 65.

Below we explain what non-concessional contributions are, where bring-forward rules come into it, why this could be good news for you and what other rules have changed for this age group in recent times.

What are non-concessional contributions?

Non-concessional contributions are voluntary contributions you can make using after-tax dollars (such as when you transfer funds from your bank account into your super), which you don't claim a tax deduction for.

Currently, the annual non-concessional contributions cap is $110,000.

Apart from non-concessional contributions, there are also concessional contributions and limits to the amount of both types of contributions you can make each year.

What are the bring-forward rules?

The bring-forward rules apply to non-concessional contributions only.

These rules allow you to make up to three years of non-concessional contributions in a single income year, if you're eligible. This means you can put in up to three times the annual cap of $110,000, which means you may be able to top up your super by $330,000 within the same financial year.

However, how much you can make as a non-concessional contribution will depend on your total super balance as at 30 June of the previous financial year. More on this below.

How could the bring-forward rules benefit me?

If you've reached your concessional contributions cap, received an inheritance, or have money from the sale of a large asset, non-concessional contributions may be a good way to top up your super.

However, contribution caps limit the amount you're able to put into super in a single year, which is where bring-forward rules may be helpful, as they could allow you to make a much larger non-concessional contribution, or more non-concessional contributions, than you'd otherwise be able to make in 12 months.

How does my total super balance cap affect bring-forward rules?

Your total super balance may impact your ability to contribute up to three years of non-concessional contributions under the bring-forward rules.

Currently, your total super balance must be below $1.48 million, as at 30 June of the previous financial year, for you to be able to contribute up to three years of annual caps ($330,000) under the bring-forward rules.

If your total super balance rises above this level, your ability to bring forward future year caps may be reduced, or no longer available at all, meaning only the standard annual cap (or no cap at all) may be available.

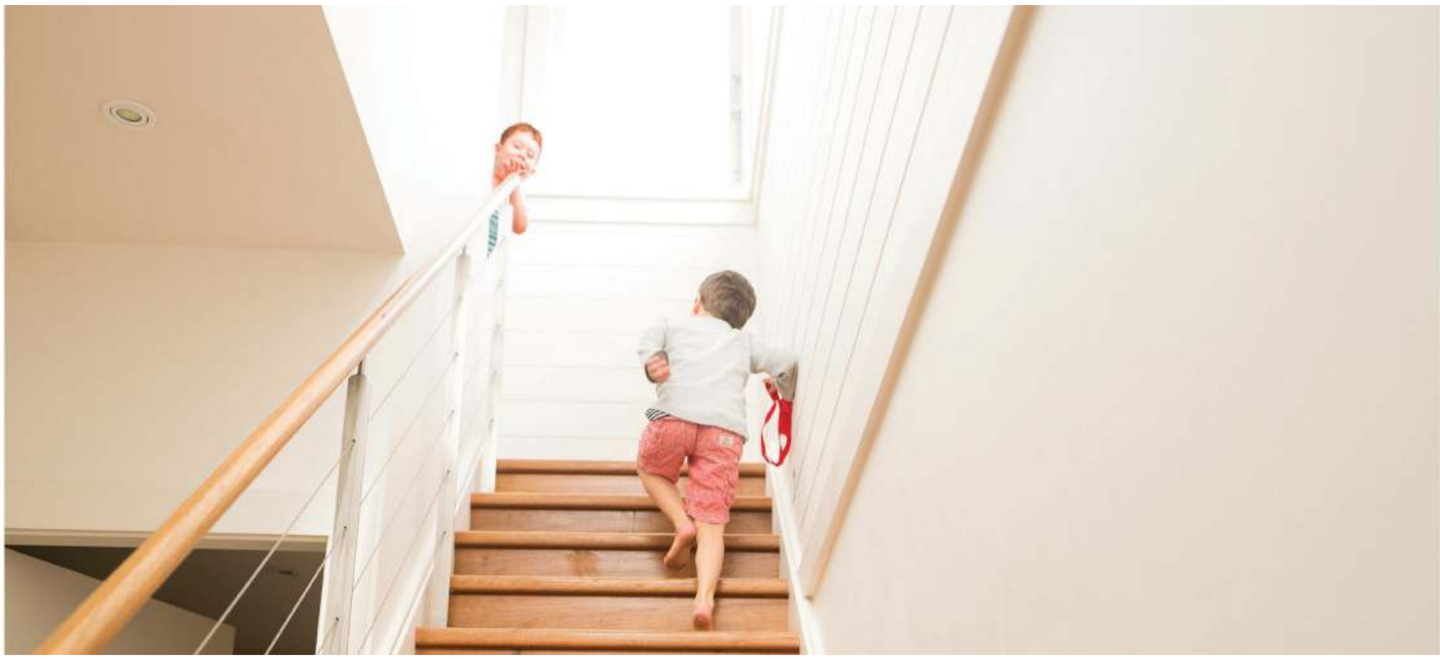
See the table below to get an idea of what you may be able to contribute under the bring forward rules.

Your total super balance cap on previous 30 June	Your non-concessional contribution limit	Bring-forward period
Under $1.48 million	$330,000	Three years
$1.48 million - $1.59 million	$220,000	Two years
$1.59 million - $1.7 million	$110,000	One year/ standard annual cap
Equal to or above $1.7 million	$0	N/A

What other things should I be across?

If you exceed super contribution caps, additional tax and penalties may apply. The value of your investment in super can also go up and down, so before making extra contributions, make sure you understand, and are comfortable with, any potential risks.

If you have any questions about the changes to the super bring-forward rule, or any other recent changes, please contact us today.



Is your home loan still right for you?

Running a few simple checks on your home loan could potentially save you thousands of dollars over the life of your loan.

For many of us, paying off a home loan is likely to be one of the biggest regular expenses in our budget. And it could stay that way for up to 30 years. But that shouldn't mean you 'set and forget' it for the life of the loan.

Running a few simple checks will help you decide whether your home loan is still right for you, or whether you should be looking for a better deal. Here's how to get started.

Find out all the home loan features

Getting your head around all the types of home loans available can be confusing. It's even more so when each of them comes with a plethora of features, making a loan appealing (or unappealing) for different reasons.

Some (generally variable-rate loans) come with redraw facilities, which can be a handy home loan feature if you've made extra repayments in the past and need to access that cash for an unexpected expense.

Others have an offset account, which is a bank account linked to your loan. Any cash in the account is offset daily against your home loan principal, essentially reducing the interest you pay.

These features can sound good in theory, but they may also attract additional fees. For instance, the redraw feature on some home loans may have associated fees and withdrawal limits. An offset account may have an annual fee that more basic home loans may not. It's worthwhile checking which features you have bundled into your loan, and what they're costing you.

Understand your home loan interest rate

What interest rate are you currently paying on your home loan? With many first-home buyers borrowing hundreds of thousands of dollars, there's a big financial incentive to do a health check on your home loan.

Unfortunately, comparing loans is not as simple as looking at interest rates. While it's easy to be lured into a new agreement by a rate that seems lower, like many things in life, appearances can be deceptive.

There are two rates to consider when re-evaluating the interest payable on your loan: interest rates and comparison rates.

The interest rate is the annual interest cost for borrowing money, but it doesn't take into account any fees. The comparison rate incorporates the annual interest rate as well as most upfront and ongoing fees, providing a clearer picture of how much you'll be up for.

If you're looking at switching providers, it's a good idea to use comparison rates as your guide across various offerings. However, the comparison rate is calculated based on a $150,000 principal and interest loan over a 25-year term, so it's not necessarily an accurate rate for your circumstances.

Ask to reduce your home loan interest rate

If you find a lower interest rate on the market, you don't automatically need to change.

First, use a home loan comparison calculator

(https://www.amp.com.au/home-loans/calculators/loan-comparison-calculator) to evaluate the two loan types side-by-side, and a home loan repayments calculator *(https://www.amp.com.au/home-loans/calculators/home-loan-repayment-and-offset-calculator)* to estimate how much your ongoing mortgage repayments could be.

Next, you could contact your current lender and tell them you're thinking about switching. If you have a good credit rating and more than 20% equity in your home[i], you may be in a better position to negotiate.

If you've found a better deal and are still considering making a switch, be aware that the costs of refinancing may outweigh the savings made by switching. If you decide to go ahead, there are a number of steps to navigate when making the switch.
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Should you make the home loan switch?

If you do your homework (or get a mortgage broker to do it for you), it's possible you'll find a home loan option that offers a lower interest rate, lower fees, more flexible repayment options or better features than the one you have.

Get started in 3 easy steps

1. Find out the features of your home loan
2. Understand your home loan interest rate
3. See if you can get a better deal, or need to switch

i Moneysmart.gov.au: Switching Home Loans