Entrust

End of Financial Year Checklist 2020

The End of Financial Year (EOFY) is fast approaching and provides the opportunity to review your financial position so that matters are considered before the end of June. Although the COVID-19 pandemic has affected household incomes, financial markets and superannuation balances, by looking at the big picture it is evident that opportunities remain. More than any other year, it is prudent to consider important actions in advance of the end of the month to allow for processing and cut-off times. The following outlines some of the things that may require action.

SUPERANNUATION CONTRIBUTIONS

Concessional Contributions

Concessional (or tax-effective) contributions to superannuation include employer superannuation guarantee, salary sacrifice and personal tax-deductible contributions. For the current financial year the concessional contribution limit is $25,000 (irrespective of age) per individual. Exceeding the limit may result in additional tax.

A tax-deductible contribution is where an individual makes a personal contribution to a complying superannuation fund, then lodges a 'Notice of Intent' to claim part or all of the contribution as a tax deduction (counting towards their concessional limit).

Individuals aged 65 or over (but under the age of 75) remain subject to the 'work test'. These rules state that voluntary contributions can only be accepted provided the individual demonstrates gainful employment for at least 40 hours in a period of not more than 30 consecutive days in the financial year. Voluntary contributions include salary sacrifice, personal tax-deductible, non-concessional and spouse contributions (see below).

Carry-Forward (Catch-up) Concessional Contributions

With many individuals experiencing a drop in income, it may be appropriate to postpone personal tax-deductible contributions. However, this financial year also offers catch-up benefits for people seeking tax deductions larger than the annual cap of $25,000.

Eligible individuals are able to make carry-forward concessional contributions using unused concessional contributions cap amounts from previous years – the five year carry-forward period commenced on 1 July 2018. This applies to individuals with a total superannuation balance (TSB) of less than $500,000 at 30 June 2019. Work test rules apply for individuals over 65 and unused amounts expire after 5 years.

The following example provides a general illustration of how the provision may operate in practice.

Financial Year	2018/19	2019/20	2020/21
Concessional contributions	$10,000	$7,000	$9,000
Unused cap space	$15,000	$18,000	$16,000
Cumulative cap space	$15,000	$33,000	$49,000

Non-Concessional Contributions and the Total Super Balance

Non-concessional contributions (NCCs) are made from after-tax cash flow. The non-concessional cap is $100,000 or $300,000 utilising the three year 'bring forward provisions'. In addition, these can only be made if a person's TSB was below $1.6 million on 30 June of the previous year.

The maximum amount available under the bring forward rules will also depend upon the TSB. It is essential to review all NCCs made during the current financial year, as well as the two previous financial years to determine whether a 'bring forward' event was triggered.

Contribution Splitting of Taxable Amounts

Contribution splitting is a useful strategy to equalise member balances between couples. You can split up to 85% of concessional (taxable) contributions to your spouse on a yearly basis, provided your spouse is under 65 (or if the receiving spouse has reached preservation age but has not yet retired).

Spouse Contribution Tax Offset

This can be a tax effective means to make additional super contributions to a non-working or low-income earning spouse. Provided the spouse earns less than $37,000, a contribution of up to $3,000 can provide a maximum tax offset (rebate) of $540 (18%) to the person making the contribution. Spouse contributions are assessed against the non-concessional contribution cap of the receiving spouse (subject to the general transfer cap). The spouse must be aged below 70, with the work test also applying if the receiving spouse is aged 65-69. The tax offset is progressively reduced until it reaches zero for spouses who earn $40,000 or more in assessable income.

Government Co-Contribution

If lower income individuals who earn at least 10% of their income from employment or carrying on a business make a NCC, they may be eligible for a Government co-contribution of up to $500. During 2019/20, the maximum co-contribution is available when contributing $1,000 and earnings are $38,564 or less.

Specifically, the Government contributes 50 cents for every dollar personally contributed (up to a maximum co-contribution of $500). The maximum is reduced by 3.33 cents for each dollar of income over $38,564 (before entirely phasing out at $53,564). The relevant income threshold is defined as all income plus reportable fringe benefits and reportable superannuation contributions minus business deductions.

SUPERANNUATION WITHDRAWALS

Minimum Pension Payments

In order to maintain the tax-exempt status of a pension account balance, it is important that the legislative minimum pension payment is satisfied. The minimum pension payments must be withdrawn from the fund prior to 30 June 2020.

In addition, the Government has announced a range of stimulus measures aimed at supporting individuals in response to COVID-19. One of these measures is to temporarily reduce the minimum pension payment requirements from superannuation's pension phase. The minimum pension is calculated based on the following table:

Member Age at 1 July 2019	Minimum Percentage	Reduction (50%) – 2019/20 and 2020/21
Under 65	4%	2%
65 - 74	5%	2.5%
75 - 79	6%	3%
80 - 84	7%	3.5%
85 - 89	9%	4.5%
90 - 94	11%	5.5%
95+	14%	7%

Transition to Retirement Income Streams (TRIS) remain subject to a maximum withdrawal of 10% of the account balance at 1 July.

Early Release of Superannuation Benefits

As a recently legislated measure, individuals whose employment has been adversely impacted by COVID-19 may be entitled to an early release of superannuation. Those who are eligible are able to apply for a payment of up to $10,000 in the 2019/20 financial year, and a further $10,000 during 2020/21 (until 24 September 2020). The payments are tax-free. Eligibility requirements are detailed through ATO online services where applications are accepted via the MyGov website.

It is important to be aware that removing money from the tax-effective environment of superannuation may reduce the effect of compound earnings.

PERSONAL TAXATION MATTERS

Portfolio Review & Capital Gains

Market volatility brought about by COVID-19 has seen remarkable moves in share prices. The end of the financial year provides the opportunity to review share portfolios and specific capital gains positions.

Trusts

Trustees should ensure that trust resolutions and declarations are completed so that all earnings are distributed from the trust to eligible beneficiaries. Where taxable income fails to be assigned to beneficiaries it becomes taxable by the trust at a penalty rate of 47%.

Pre-payments

Pre-paying tax-deductible insurance premiums (such as income protection held external to super) and investment interest may enable individuals to bring forward deductions into the 2019/20 financial year. Tax accountants are best placed to confirm tax-deductible items such as the purchase of new work-related items.

Instant Asset Write-Off Scheme

Under the current scheme which was expanded during March 2020, small businesses with a turnover of less than $500 million may be able to claim an upfront tax deduction of up to $150,000 when purchasing depreciating assets in the 2019/20 financial year. The write-off threshold applies on a per asset basis.