Loss Carry Back

This concession allows companies to ‘carry back’ tax losses incurred in a tax year and apply these losses against past profits to generate a refundable tax offset. This concession was first introduced in the 2020 federal budget and has now been extended for a further 12 months until June 2022.

The rules and procedures, which we will outlined below, in actioning the carry back losses measure are not simple. Most importantly the concession is only available to companies, it does not extend and apply to partnerships, trusts or individuals regardless of their trading circumstances.

So How Does It Work?

Companies with an aggregated turnover below $5 billion can choose to carry back income tax losses arising in any one or more of the 2020, 2021 and/or 2022 income tax years against past profits and as a result of the profits, the resulting tax liabilities incurred, going as far back as the 2019 income year.
The loss carry back is provided in the form of a refundable tax offset. The choice to apply the loss carry back will generally be made in the company’s tax return for the 2021 and/or 2022 income year.

What’s the Process?

- Confirm that the year in which the company is choosing to apply for the loss carry back offset. To apply the loss, carry back rules, the entity must have made income tax losses in the 2020,2021 or 2022 tax years and must also have a prior year income tax liability in the relevant years.
- Calculate the loss carry back refundable tax offset. The amount of the refundable tax offset is calculated based on the income tax losses being carried back multiplied by the entity’s tax rate in the year that the loss arose (for 2021 this would be 0.26 cents in the dollar). The income tax losses are carried back against the income tax liability of a prior year as far back as the 2019 year.
- Determine if there are excess franking credits that can be applied to the losses carried back. Now here is the catch, the refundable tax offset cannot exceed a company’s franking account balance at the end of the year in which the tax offset is being claimed (i.e. 2021 or 2022 year). In other words a rebate will only extend to the balance of the franking account. If for example a dividend has been paid to shareholders thereby reducing the franking account balance, this may preclude the application of the carry back benefit/offset.

Super Guarantee Increase its now 10%

On 1 July 2021, the Superannuation Guarantee (SG) rate will rise from 9.5% to 10% this rise representing the first SG increase since 2014. Importantly the SG rate is then set to steadily increase each year until it reaches 12% on 1 July 2025 as outlined.

	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%

This year's increase will require employers to contribute an additional 0.5% to meet their SG obligations for any SG super payments made after 1 July 2020 regardless of when the SG accrued.

You should start planning how this SG increase will be implemented and communicated to employees. It is also important that you review all employment contracts and confirm those employees renumerated through superannuation-inclusive packages rather than exclusive as the outcomes for each will be different.

Employees - superannuation-inclusive package

Where an employee is remunerated through a superannuation-inclusive package, that is with words to the effect of "total remuneration inclusive of superannuation" in their employment contacts. In the absence of a remuneration review, the result of the increase will mean that their take-home cash payments will likely reduce from 1 July 2021 with more funds being set aside for super.
We recommend that employers not only review employment contracts but also consider communicating these changes with their employees as early as possible to avoid any queries or issues arising. It might also be a good time to consider a revision to employment agreements to ensure consistency in regard to the wording around super in these contracts.

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

Should you have any complex needs or concerns in regard to your employment contracts and employees, we recommend you seek professional HR Advice. If you would like a referral please contact us at Navwealth.

Employees – Award rates

A person on minimum or award wage cannot be paid less than the minimum so the increase in super to 10% must be paid without affecting their base wages so the increase in their superannuation contributions will be borne by the employer.

Payroll system capabilities and updates

We are waiting for advice from major software providers on the process or processes required to change the SG from 9.5% to 10.0%. Worst it will require the SG rate to be updated for every employee in their employment settings, we are well placed to assist you in ensuring this change takes effect as part of our end of year processes we undertake with you.

Importantly as single touch payroll (STP) is now compulsory for all businesses from 1 July 2021, including micro and closely held business's, all employees including the business owners should be transitioning to software platforms for payroll management from 1 July 2020.

If you are not yet using STP enabled software or have not addressed moving to a software platform to manage your business, please contact your Navwealth advisor to discuss your circumstances

Planning

The cashflow impact of the changes to super (now and into the future) upon your business should not go unconsidered. The 1 July starting point of 0.5% will be 2.5% by 2025 and will increase your cost of employment. There are also the indirect costs associated with these increases including costs to workers compensation and payroll tax that need to be considered.

Other Super News and Information – What changes on July 1?

Indexation and contribution caps and the transfer balance cap

Indexation ensures that the caps on superannuation that limit how much you can transfer into super and how much you hold in a tax-free retirement account, remain relevant by making pre-determined increases in line with inflation. To trigger indexation, the consumer price index (CPI) needed to reach 116.9. Australia reached 117.2 in December 2020 triggering increases to the contribution and transfer balance caps from 1 July 2021. The next increase will occur when a December quarter CPI reaches 123.75.

Concessional and non-concessional contribution caps

From 1 July 2021, the superannuation contribution caps will increase enabling you to contribute more to your superannuation fund (assuming you have not already reached your transfer balance cap).

The concessional contribution cap will increase from $25,000 to $27,500. Concessional contributions are contributions made into your super fund before tax such as superannuation guarantee or salary packaging.

The non-concessional cap will increase from $100,000 to $110,000. Non-concessional contributions are after tax contributions made into your super fund.

The bring forward rule enables those under the age of 65 to contribute three years' worth of non-concessional contributions to your super in one year. From 1 July 2021, you will be able to contribute up to $330,000 in one year. Total superannuation balance rules will continue to apply. However, if you have utilised the bring forward rule in 2018-19 or 2019-20, then your contribution cap will not increase until the three-year period has passed.

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

Transfer balance cap – why you will have a personal cap

The transfer balance cap (TBC), as the name suggests, limits how much money you can transfer into a tax-free retirement account. From 1 July 2021, the general TBC will increase from $1.6m 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.

If your superannuation is in accumulation phase before 1 July 2021, that is, you have not started taking an income stream (pension), then your cap will be the fully indexed amount of $1.7m.

However, if you have started taking an income stream - you have retired or are transitioning to retirement - then your indexed TBC will be calculated proportionately based on the highest ever balance of your account between 1 July 2017 and 30 June 2021. The closer your account is to the $1.6m cap, the less impact indexation will have. For anyone who reached the $1.6m cap at any time between 1 July 2017 and 30 June 2021, indexation will not apply and your cap will continue to be $1.6m. For example, if you are transitioning to retirement and drawing a pension, and your highest ever balance in your retirement account was $1.2m, then indexation only applies to $400,000 (the $1.6m cap less your highest very balance). In this case, your new personal TBC will be $1,625,000 after indexation.

My super is…	TBC to 30 June 2021	TBC from 1 July 2021
In accumulation phase	$1.6m	$1.7m
In retirement phase and I reached the $1.6m cap limit between 1 July 2017 and 30 June 2021	$1.6m	$1.6m
In retirement phase and I have never reached the $1.6m cap limit at any time between 1 July 2017 and 30 June 2021	$1.6m	$1.6m plus indexation on the amount between your highest ever balance and the $1.6m cap.

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 your superannuation is in retirement phase, it will be very important to ensure that your Transfer Balance Account compliance obligations are up to date. For Self-Managed Superannuation Funds (SMSFs), it is essential that you let us know about any changes that impact on your transfer balance account, for example if a member of your fund retires.

The total super balance caps to utilise the spouse contribution offset and the government co-contribution will also be lifted to $1.7m in line with indexation.

Minimum superannuation drawdown rates

The Government has announced an extension of the temporary reduction in superannuation minimum drawdown rates for a further year until 30 June 2022.

Age	Default minimum drawdown rates	2019-20, 2020-21 & 2021-22 reduced rates
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 or more	14%	7%

SGC Threshold Removed

The Federal Budget proposed the removal the $450 monthly threshold for which SG must be paid to employees. This change is still to be legislated and should this proposed change become law it will be from 1 July 2022 next year. No change to the $450 minimum threshold this year.

New stapled superannuation employer obligations for new staff

Currently, when an employer hires a new staff member, the employee is provided with a Choice of Fund form to identify where they want their superannuation to be directed. If the employee does not identify a fund, the employer directs their superannuation into a default fund.

When someone has multiple funds, it often erodes their balance through unnecessary fees and often insurance. And, as at 30 June 2020, there was $13.8 billion of lost and unclaimed superannuation in accounts across Australia.

From 1 July 2021, where an employee does not identify a fund, legislation before Parliament will require the employer to link the employee to an existing superannuation fund. That is, an employee's superannuation fund will become 'stapled' to them. An employer will not simply be able to set up a default fund, but instead will be required to request that the ATO identify the employee's stapled fund. If the ATO confirms no other fund exists for the employee, contributions can be directed to the employer's default fund or a fund specified under a workplace determination or an enterprise agreement.