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It's time to stop investing in super when the rules stop changing

As a case in point, here is a summary of the main super indexation changes to apply from 1 July 2021:

- Concessional super cap (CC) indexed to $27,500*
- Non-concessional super cap (NCC) indexed to $110,000
- Maximum 'Three Year Bring-Forward' rule cap indexed to $330,000
- Transfer balance cap indexed to $1.7m for new 'unrestricted non-preserved' Account Based Pensions commenced post 1 July 2021
- Total Super balance cap indexed to $1.7m for everyone.

Now, we all know there are benefits to be gained by investing within the superannuation environment. Surprisingly few, however, realise that from 1 July 2021, a tax break of up to 24% (based on the marginal tax rate applicable to taxable income of up to $180,000) is available on the maximum Concessional Contribution (CC) of $27,500.

In addition, from 1 July 2021, up to $330,000 is able to be contributed to super in 'after tax' Non-Concessional Contributions (NCC) for those eligible to use the 3 year bring-forward rule.

The benefits are obvious. If your marginal tax rate is 39%, you will pay just 15% on the earnings, making it a 24% 'tax gift' from the government (net of the 15% contributions tax that the super fund pays).

If you contribute to super at the maximum CC of $27,500 pa, you will save up to $6,600 in NET tax every year. Compounded at a conservative 5% pa over a decade, twenty and thirty years, this will yield respectively, an extra $81,869, $205,999 and $394,207 which otherwise would have gone to the ATO.

In addition, you will have contributed a net $23,375 pa into your super pool, which, compounded at 5% pa over a decade, twenty and thirty years, will grow respectively, to $289,951, $729,579 or $1,396,150.

Nevertheless, many will still struggle to get their heads around contributing beyond the Super Guarantee (SG) level of approximately 10%. If earning $150,000 pa, they will be happy just to see this $15,000 put away by their employer, on their behalf. That may leave a $12,500 opportunity sitting on the table – an opportunity which would be significantly wasted.

For example, if you were to choose instead to invest those dollars NOT contributed to super in a share portfolio outside of the super environment, you would be buying fewer shares from after-tax dollars ($23,375 pa net within super versus $16,775 pa outside of super).

Furthermore, any proceeds on shares realised within the first 12 months will also be subject to Capital Gains Tax (CGT) at your personal tax rate of 39% (or a personal CGT rate of 19.5% if the shares have been held for more than 12 months).

However, for share proceeds realised within the first 12 months of purchase inside super, the CGT rate is 15%, and 10% if realised outside 12 months. In other words, you get to purchase more shares with your NET CC inside super than your net salary outside super - that is, $23,375 pa vs $16,637.50 pa. I know what I would prefer.

In addition, due to the reduced CGT and tax rates on earnings inside super, you get to keep more of the income and capital gains received. The more you get to keep after tax, the more your portfolio benefits from compound interest.

Over the last 30+ years, I've been hearing consistently from people who do understand the benefits, the same complaints – "the government keeps changing the rules" and "superannuation is all too complicated".

Both of these statements are correct – but my counter argument also remains consistent:

Over time, Government will change the rules around superannuation to cap the massive tax-advantages. Nevertheless, super has still grown to the incredible $3 trillion+ sovereign wealth fund it is today. (Making super pensions 100% tax exempt for those over age 60 has also increased the tax advantages, but I will expand on this aspect in a future article).

Yes, super is complicated, and yes 'they' do keep changing the rules, but like it or not, that is what governments do – and not just with super. As per this year's May 11 Budget, we saw more super changes announced, which, if legislated, will actually help us contribute more to super, for longer.

In the meantime:

- We should ALL invest in super, as soon as we can, as much as we can, for as long as we can; and
- The time to STOP investing in super is when the rules STOP changing!

In other words, the super rule changes will only cease if the government has eliminated all the tax benefits of investing in it, and we are nowhere near that point in time.

When it happens, (despite being a BIG super nerd) I will be the first to let you know.

the $27,500 CC threshold is* *<u>inclusive</u>*** *of ALL employer contributions such as Super Guarantee.*

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