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FACT SHEET

Contributing to Super – Your Options

For clients who want to grow their superannuation

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Introduction

Superannuation is a tax effective way of saving for your retirement. However, it comes with a catch - accessibility. The favourable tax treatment means there are many rules around how and when you can contribute, as well as how and when you can access the funds.

This fact sheet focuses on the rules around getting money into your super fund. For further information about getting money out, refer to our separate Fact Sheet on ***'Retirement Income Streams – Your Options.'***

Decisions

If you want to contribute to your super, you need to understand the rules around making those contributions, and the consequences of doing so. Use this fact sheet to understand your options so that you can make informed decisions.

Provided you are comfortable proceeding on your own, use the '***Decision Time'*** boxes to note down your choices. However, after reading this, you may want to talk to someone who can guide you on the right decision for you. If that's the case, we recommend you speak to a licensed adviser (see below).

Your decision…

- ☐ I will seek advice as to the appropriateness of contributing to super.
- ☐ I am comfortable making my own decisions regarding contributing to super.

A word on licensing

Anyone who wants to provide advice to you regarding superannuation needs to be appropriately licensed to do so. They either need to hold an Australian Financial Services Licence (AFSL) or be authorised under someone else's AFSL.

This licensing requirement applies to everyone, including accountants. Unlicensed accountants can assist you by providing factual information. If they are a registered tax agent, they can also provide you with tax advice regarding your super. But as you'll see from this fact sheet, tax is just one of many factors you should be considering when deciding if, when and how much income to contribute.

What we're not covering

This fact sheet has been specifically designed for clients who are self-employed. As such, there are a few topics we haven't covered in any depth. These include:

- Super guarantee obligations of an employer
- Contributions using the small business tax concessions;
- In specie contributions allowed into an SMSF.

This fact sheet is not a substitute for advice.

What is a contribution?

The Facts

In the context of superannuation, a contribution is deemed to be anything of value that increases the capital of a super fund, and that is provided by a person whose purpose is to benefit one or more particular members of the fund or all of the members in general.

When you think about how the capital of a super fund may be increased, it can occur directly in a number of ways:

- By transferring funds to the super provider (e.g. cash contribution)
- By rolling over a super benefit from one fund to another
- By transferring an existing asset to the fund (i.e. an in-specie contribution, such as transferring listed shares off market into the fund)
- By creating rights in the super fund (also in in-specie contribution); or
- Increasing the value of an existing asset held by the fund (e.g. improvements to land and buildings).

Furthermore, the capital of a super fund can increase indirectly by:

- Paying an amount to a third party on behalf of the super fund (e.g. paying the audit fees personally and not by the fund)
- Forgiving a debt owed by the super fund (e.g. repayment in part or full of the LRBA debt outstanding); or
- Shifting value to an asset owned by the super fund.

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How much ***can*** you contribute to super?

The Facts

Given the favourable tax treatment superannuation receives, the Government sets limits on how much you can contribute into superannuation. There are annual limits as well as lifetime limits and age-based limits. Let's take a closer look at the different types of contributions you can make, and what limits there are on making those contributions.

Concessional Contributions

Concessional contributions are made into your super fund before tax, and include (but are not limited to):

- Employer contributions, such as
    - compulsory employer contributions (super guarantee)
    - any additional concessional contributions your employer makes
- Salary sacrifice payments made to your super fund
- Other amounts paid by your employer from your before-tax income to your super fund, such as administration fees and insurance premiums;
- Contributions you are allowed as an income tax deduction.

Concessional contributions are taxed at 15% when they are received by the super fund.

Limits and restrictions

The current concessional contribution cap is $25,000. If you go over the cap, you may have to pay extra tax.

When working out your super contributions for the financial year, remember – contributions don't count when the payment is sent, they only count once the payment is received by your fund. If you are planning to make a contribution and want to claim a tax deduction in the current financial year, your fund must receive it by 30 June.

Note: If you split your before-tax contributions and give some to your spouse, these contributions still count towards your concessional cap.

If you are between 65 and 75, you need to meet the work test to be eligible to continue making contributions.

From 1 July 2018, if you do not use your concessional contribution cap for the income year, you will be able to carry forward your unused amount to the following year. However, you will only obtain an increase in your concessional contribution cap by the amount of the unused cap where you have a total superannuation balance of less than $500,000 at the end of 30 June in the previous year. Unused amounts are available for a maximum of five years and will expire after this time.

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Low Income Superannuation Tax Offset

If you earn $37,000 or less you may also get a 'low income superannuation tax offset' from the government. The amount will be 15% of the concessional contributions you or your employer made to your super account during the financial year, up to a maximum of $500 annually.

You will get this payment whether or not you add extra money to your super. The ATO will automatically make these payments if you meet the criteria. To be eligible for payment it is a requirement that your super fund has your tax file number.

Non-concessional Contributions

Non-concessional contributions are made into your super fund from after-tax income. These contributions are not taxed in your super fund.

There is an annual cap of $100,000 on the non-concessional contributions you can make each financial year.

Bring-forward rule

If you are under 65 at any time during the year, you have the option of bringing forward the next two years' contributions, which allows additional non-concessional contributions to be made, up to a maximum of $300,000.

By way of illustration, this means you can make a maximum non-concessional contribution of $300,000 in the 2018/19 financial year. Under this approach however, you will not be able to make further non-concessional contributions until the beginning of the 2021/22 financial year.

The diagram below outlines how the bring-forward rule operates subject to your total superannuation balance at the end of the previous financial year:

Total superannuation balance on 30 June 2017	Non-concessional contribution cap for the first year	Bring-forward period
Less than $1.4 million	$300,000	3 years
$1.4 million to less than $1.5 million	$200,000	2 years
$1.5 million to less than $1.6 million	$100,000	No bring forward period, general non-concessional contributions cap applies
$1.6 million or more	Nil	n/a

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Limits and restrictions

It is important to note subject to the level of your bring-forward period, the amount available to contribute will be based upon both:

- The unused non-concessional cap space available following on from the initial and any subsequent contributions, plus
- Your total superannuation balance being under $1.6m at the end of the previous financial year.

Example: Jill has not made any previous non-concessional contributions to super. In 2018/19, her total super balance (TSB) is $1,200,000. She contributes $150,000 as a non-concessional contribution. Jill has triggered the bring forward rule, with her TSB being more than 2 times the non-concessional cap (NCC) cap, she can make NCCs using the bring forward up to $300,000.

As a result, she can contribute a further $150,000 at any time between 1 July 2018 and 30 June 2021, but only on the basis that in the subsequent income years (2019/20 and 2020/21) her TSB at the end of the previous income year is less than $1.6m.

Once the limit has been reached within the bring forward timeframe, she cannot make any further non-concessional contributions till 1 July 2021.

Spouse contributions

You can make contributions into a complying super fund on behalf of your spouse (whether married or defacto) who is earning a low income or not working and be eligible to claim a tax offset of up to $540, representing 18% on the first $3,000 of non-concessional contributions made on their behalf.

There are conditions that must be satisfied to be entitled to the tax offset, including:

- The sum of your spouse's assessable income, total reportable fringe benefit amounts and reportable employer super contributions (RESC) was less than $40,000 and the contributions were claimed as a tax deduction by you. You can claim the maximum tax offset of $540, where:
  - You contribute to the super fund for your spouse, whether married or defacto
  - Your spouse’s income is $37,000 or less*
- The contributions were made to a complying super fund for the income year in which you made the contribution
- Both you and your spouse were Australian residents when the contributions were made;
- When making the contributions you and your spouse were not living separately and apart on a permanent basis; and
  Your spouse:
  - Has not exceeded their non-concessional contribution (NCC) cap for the relevant year; or
  - Did not have a total superannuation balance (TSB) equal to or above the transfer balance cap of $1.6m before that start of the financial year in which the contribution was made.

** The tax offset amount reduces when your spouse’s income is greater than $37,000 and completely phases out once your spouse’s income reaches $40,000.*

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Please note that the tax offset for eligible spouse contributions can't be claimed for super contributions that you made to your own fund, then decide to split to your spouse. This contribution splitting arrangement is a rollover or transfer, not a contribution.

Government super co-contributions

If you earn less than $52,697 per year (before tax) and make after-tax super contributions, you are eligible for contributions from the Government. This is called the Government super co-contribution. The amount of government co-contribution you receive depends on your income and how much you contribute.

If you earn less than $37,697 the maximum co-contribution is $500 based on 50c from the Government for every $1 you contribute (i.e. $1,000).

When you lodge your tax return, the Australian Taxation Office (ATO) will work out if you're eligible. If the super fund has your tax file number (TFN), the ATO will automatically pay it to your super account.

There are a range of qualifying conditions to be eligible for the super con-contribution. These include:

- You made one or more eligible personal super contributions to your super fund during the financial year
- You passed the income test threshold of having no more than $52,967 of total income* for the financial year, plus you have 10% or more of your total income being derived from employment related activities (which included carrying on a business)
- You were less than 71 years of age at the end of the financial year
- You did not hold a temporary visa at any time during the financial year
- You lodged your tax return for the relevant financial year
- You had a total superannuation balance (TSB) that is less than the transfer balance cap (TBC) of $1.6m on 30 June of the previous financial year; and
- You have not contributed an amount than is more than your non-concessional contribution cap for the relevant financial year.

Meeting the 'work test'

There are rules for the types of contributions your fund can accept for members of various ages. If you have reached 65 years but not 75 years, you must have worked at least 40 hours within 30 consecutive days in a financial year before your super fund can accept contributions for you. This includes non-mandated employer contributions (e.g. salary sacrifice), personal contributions, spouse contributions and government co-contributions.

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Downsizer contributions

From 1 July 2018, if you are 65 years old or older and meet the eligibility requirements, you may be able to choose to make a downsizer contribution into your superannuation of up to $300,000 from the proceeds of selling your home.

Your downsizer contribution is not a NCC and will not count towards your contributions caps. The downsizer contribution can still be made even if you have a total super balance (TSB) greater than $1.6 million.

Your downsizer contribution will not affect your total super balance until your total super balance is re-calculated to include all your contributions, including your downsizer contributions, on 30 June at the end of the financial year.

The downsizer contribution will also count towards your transfer balance cap, currently set at $1.6 million. This cap applies when you move your super savings into retirement phase. You can only make downsizing contributions for the sale of one home. You can't access it again for the sale of a second home. Downsizer contributions are not tax deductible and will be taken into account for determining eligibility for the age pension.

If you sell your home, are eligible and choose to make a downsizer contribution, there is no requirement for you to purchase another home.

There are specific eligibility requirements that must be met to make a downsizer contribution into super, that include:

- You are 65 years old or older at the time you make a downsizer contribution (there is no maximum age limit)
- The amount you are contributing is from the proceeds of selling your home where the contract of sale exchanged on or after 1 July 2018
- Your home was owned by you or your spouse for 10 years or more prior to the sale – the ownership period is generally calculated from the date of settlement of purchase to the date of settlement of sale
- Your home is in Australia and is not a caravan, houseboat or other mobile home
- The proceeds (capital gain or loss) from the sale of the home are either exempt or partially exempt from capital gains tax (CGT) under the main residence exemption, or would be entitled to such an exemption if the home was a CGT rather than a pre-CGT (acquired before 20 September 1985) asset
- You have provided your super fund with the ***'Downsizer contribution into super'*** form either before or at the time of making your downsizer contribution
- You make your downsizer contribution within 90 days of receiving the proceeds of sale, which is usually at the date of settlement;
- You have not previously made a downsizer contribution to your super from the sale of another home.

If your home that was sold was only owned by one spouse, the spouse that did not have an ownership interest may also make a downsizer contribution, or have one made on their behalf, provided they meet all of the other requirements.

If eligible, you can make a downsizer contribution up to a maximum of $300,000 (each). The contribution amount can't be greater than the total proceeds of the sale of your home.

Age and work test restrictions

Age at time of contribution	Personal contributions (member)	Other contributions (not member of employer)	Voluntary employer contribution	Mandated employer contribution
	Eg: personal non-concessional, personal concessional contributions	Eg: spouse contribution	Eg: Salary sacrifice, other employer contributions in excess of SG	Eg: 9.5% SG, or contribution under industrial award
Under 65	Yes	Yes	Yes	Yes
65 to 69	Work test	Work test	Work test	Yes
70 to 74	Work test	No	Work test	Yes
75 and over	No	No	No	Yes

Let's talk tax…

When considering tax in relation to a contribution into super, you not only need to think about how you wish the treat the contribution for tax purposes going into the fund, but how the contribution and its future earnings within the fund will be taxed as well.

The contributions that you claim as a deduction will count towards your concessional contributions cap. When deciding whether to claim a deduction for super contributions, you should consider the super impacts that may arise from this, including whether:

- You will exceed any of your contribution caps
- Division 293 tax applies to you (additional 15% tax where your income exceeds $250,000)
- You wish to split your contributions with your spouse;
- It will affect your super co-contribution eligibility.

If you exceed your cap, you will have to pay extra tax and any excess concessional contributions will count towards your non-concessional contributions cap.

Contributions

	Tax
Super Guarantee (9.5%)	**15%**
Concessional	**15%**
Spouse	**Nil**
Non-concessional	**Nil**
Downsizer	**Nil**

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While the money is in the fund (Fund Earnings)

	Accumulation	Transition to Retirement Income Stream (TRIS)		Account Based Pension
		TRIS	TRIS in Retirement Phase (RP)	
Tax Rates	15%	15%	0%	0%

Each of these tax rates above may be reduced through franking credits, foreign tax credits and other allowable offsets.

Important – Earning more than $250,000

If you earn more than $250,000 of income in any one year, your concessional contributions may be subject to an additional 15% tax. This tax is called Division 293 tax. It was introduced as an additional 15% contributions tax to be paid by high income individuals. This tax is charged if your income plus your concessional super contributions are above $250,000 (known as 'income for surcharge purposes'). There are different tax rules for members of defined benefit super funds.

Anyone with an 'income for surcharge purposes' of more than $250,000 (including rental property losses and other items) in a financial year, effectively now pays 30% tax on concessional contributions, doubling the super contributions tax bill for high-income earners.

What if you contribute too much?

There are limits (or caps) on how much you can contribute into superannuation. Failure to comply with these caps can result in you having to pay extra tax.

Type of Contribution	**Consequence**
Concessional	Any excess concessional contributions are included within the individual's assessable income and are taxed at the marginal tax rate plus an excess concessional contribution charge (calculated from the start of the financial year when the excess contribution occurred). Individuals can elect to release up to 85% of the excess concessional contributions to meet the tax liability from the amended assessment of the individual. Any amount not withdrawn to pay the tax liability from the amended

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Type of Contribution	Consequence
	assessment will count towards the member's non-concessional contribution cap.
Non-concessional	You have the option to refund the amount of the excess non-concessional contribution, along with 85% of the associated earnings. The full associated earnings stated in the determination issued by the ATO will be included in your assessable income and taxed at your marginal tax rate. You are entitled to a 15% non-refundable tax offset to recognise any tax paid by your super fund. Alternatively, if you choose not to release the excess non-concessional contribution, the ATO will issue an excess NCC tax assessment. The excess tax amount is taxed at the highest marginal tax rate. You will be required to elect a fund to release this excess NCC tax from.

How much *should* you contribute to super?

Just because you can contribute to super doesn't necessarily mean you should, so you will need to make a decision. When making that decision, you will need to balance your short, medium and long-term needs against any tax benefits that are available.

Things to take into consideration…

	Do you need an income?	**Tax considerations**
Short Term	Do you need the money to meet short term living expenses? Do you have other sources of income?	How much tax will you pay on the income that you receive? How much tax are you paying on lump sum earnings?
Medium Term	Contributing to super means losing access to those funds in the short to medium term. Do you need the money between now and when you meet a condition of release to: • Pay down debts • Pay for children's education • Fund any major capital purchases; • Retire early. Do you need to pull back on your medium-term goals to ensure you have enough to retire on?	Earnings on money saved in superannuation will be taxed at a maximum of 15%, as opposed to your marginal tax rate, if the funds were held outside of superannuation.
Long Term	Will you have enough to retire on? Income - Will you have a sufficient level of capital to be able to generate an income for at least your life expectancy? Your estate – what would you like to hand down to future generations (e.g. your children)? **Your estate** – What would you like to hand down to future generations (e.g. your children)?	

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When can you access your super?

The Facts

You can only access your super if you've met what's called a **'condition of release'**.

Conditions of Release

Without cashing restrictions
*(i.e. you **can** access the capital as well as an income stream)*

- Retirement*
- Attaining age 65
- Temporary or permanent incapacity
- Terminal illness
- Severe financial hardship
- Compassionate grounds;
- Temporary residents permanently leaving Australia.

With cashing restrictions
(*i.e. **no** capital access, right to income stream only*)

- Reaching preservation age.

** If you haven't reached 65 but you have retired, you will only be able to satisfy a condition of release and therefore access super if you have also reached your 'Preservation Age'.*

Preservation Age

Preservation Age has been slowly increasing over time. The table below provides details of an individual's Preservation Age.

Date of Birth	Preservation Age
Before 1 July 1960	**55**
1 July 1960 – 30 June 1961	**56**
1 July 1961 – 30 June 1962	**57**
1 July 1962 – 30 June 1963	**58**
1 July 1963 – 30 June 1964	**59**
From 1 July 1964	**60**

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Decision Time

If you know how much you want to contribute to super, ASIC's MoneySmart website has a great calculator to help you make a decision about concessional and non-concessional contributions, including taking into account the impact on your take home pay.

https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/super-contributions-optimiser

Your decision…

	Concessional Contribution	Non-concessional contribution	Spouse contribution	Downsizer contribution
	☐ YES	☐ YES	☐ YES	☐ YES
How much	$.........................	$..........................	$............................	$...............................
Caps	$25,000	$100,000 in one year, or up to$300,000 over a 3-year bring forward period (where eligible)	First $3,000 of NCC where eligibility criteria met	Up to $300,000 from sale of proceeds from family home after 1 July 2018

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Where to next?

If you've decided to contribute to super, there is normally some additional paperwork and forms that need to be completed to make sure your contributions are treated the way you would like. Below is a summary of what paperwork you might need and when it needs to be completed by.

Type of Contribution	Paperwork needed	Provide this to	By when
Concessional contribution	For employer contributions: • Obtain an electronic service address (SuperStream) form for your employer to pay your contributions in accordance with the payment & data standards.	Your super fund	Prior to making contributions
	For member contributions: • Complete and lodge a notice of intent to claim a deduction (https://www.ato.gov.au/forms/notice-of-intent-to-claim-or-vary-a-deduction-for-personal-super-contributions/)		Before lodging your annual tax return*
Non-concessional contribution	Information about the non-concessional contributions made will be reported to the ATO within the Member Information of the SMSF Annual Return.	Your super fund	Due date of the SMSF Annual Return
Spouse contribution	Information about the contribution will be included within the SMSF Annual Return. The individual will need to include information about the spouse contribution within their personal income tax return.	N/A	N/A
Downsizer contribution	Downsizer contribution form https://www.ato.gov.au/Forms/Downsizer-contribution-into-super-form/	Your super fund	At the time of contribution

** There are some exceptions to this - for example, if you commence a pension after making the contribution.*

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Like more information?

For more information about your income stream options in retirement, please contact:

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Factual Information

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If you do want financial product advice, including advice that can be tailored to your particular objectives, financial situation or needs, we would be happy to provide that service to you in our capacity as an Australian financial services licensed accountant under our related entity, **Cordner Super Advisory [AFSL 502431]**.

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