

WHAT CONTRIBUTIONS CAN I MAKE TO MY SUPERANNUATION?

This technical article reviews the latest limits regarding contributions to a superannuation fund and the applicable tax rates.

In the years since the introduction of contributions caps (generally from 1 July 2007), the maximum amount individuals may contribute to their superannuation has changed quite a few times. As the 2013/14 financial year sees us in the midst of another period of change, it is timely to consider what amount of contributions can be made to superannuation now and in coming years, and at what rate will those contributions be taxed. Also, as mistakes can and will occur, we will consider whether remedies are available if the maximum limits are exceeded.

Contributions

In general there are two types of contributions, being:

- concessional contributions; and
- non-concessional contributions.

Concessional contributions

Concessional contributions are payments made to a superannuation fund by individuals or others, such as employers, for the retirement benefits of a member of the fund. A tax deduction is usually able to be claimed by the person

or entity paying the contributions. Conversely, concessional contributions are included in the taxable income of the fund (i.e. they are subject to tax).

Employer contributions include those required to be made by legislation (Superannuation Guarantee) or employment award obligations. Contributions made under an arrangement (salary sacrifice) between employers and employees are also concessional contributions.

Individuals may only make concessional contributions if they meet certain tests which indicate they are at least predominantly self employed.

Non-Concessional Contributions

Non-concessional contributions are not taxed on receipt by the superannuation fund. Similarly, no tax deduction is available to the contributor. In other words, non-concessional contributions are paid using money that has already been taxed.

A number of types of contributions fall under the heading of non-concessional contributions. For example, Government co-contributions and contributions arising from capital gains on the sale of

business assets are classified as non-concessional contributions, but are not included under the standard limits for non-concessional contributions.

Contribution limits

Concessional and non-concessional contributions, up to specified maximum amounts, are permitted to be made by or on behalf of individuals each year. Those specified maximum amounts are called contributions caps. The main contributions caps are the **concessional contributions cap** and the **non-concessional contributions cap**.

The **concessional contributions cap** has been temporarily increased to \$35,000 for the 2013/14 financial year for individuals aged at least 59 years on 30 June 2013 (i.e. those who will turn 60 or more in the 2013/14 year). For all other individuals, the concessional contributions cap is \$25,000 for the year.

For the 2014/15 financial year, the concessional contributions cap will be \$35,000 for individuals aged at least 49 years on 30 June 2014 (i.e. those who will turn 50 or more in the 2014/15 year). For all other individuals, the concessional

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contributions cap will remain at \$25,000 for each year, with indexation, in increments of \$5,000, being applied in line with inflation. Indexation has been halted by the Government but it is expected to recommence from 1 July 2014.

The varying concessional contributions caps in those two years are detailed in the table below.

Income year	Cap for those aged 59 years or over on 30 June 2013	Cap for those aged 49 years or over on 30 June 2014	Cap for all others
2013–14	\$35,000	\$25,000	\$25,000
2014–15	\$35,000	\$35,000	\$25,000

Source- Australian Taxation Office

The **non-concessional contributions cap** is 6 times the standard concessional contributions cap and is therefore currently set at \$150,000 (i.e. $6 \times \$25,000 = \$150,000$). Any increase in the concessional contributions cap after 30 June 2014 will result in a corresponding increase in the non-concessional contributions cap. For example, an increase of the concessional contributions cap to \$30,000 will see the non-concessional contributions cap increase to \$180,000 (i.e. $6 \times \$30,000 = \$180,000$).

For superannuation fund members under age 65, it is possible to contribute a total of up to 3 years non-concessional contributions (currently a total of \$450,000) to superannuation in 1 year, by bringing forward the permitted contributions for the following 2 years. It is strongly recommended that anyone contemplating such a contribution discuss the position with their adviser, as a number of 'traps' exist which could see the non-concessional contributions cap exceeded. The penalty for exceeding the cap can be severe.

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Contribution age limits

The age of individuals at the time contributions are intended to be made impacts the ability of superannuation funds to accept those contributions. In some instances, individuals must have worked for at least 40 hours in a 30 day period ('work test') in the year contributions are made.

The various upper age limits for making contributions to superannuation is detailed in the table below.

Contribution permitted?	Age			
	Up to age 64	Age 65 to 69	Age 70 to 74	Age 75 and over
Concessional				
Super Guarantee & Award	Yes	Yes	Yes	Yes
Other concessional	Yes	Yes*	Yes*	No
Non-concessional				
Member - 1 year	Yes	Yes*	Yes*	No
Member - up to 3 years	Yes	No**	No	No
Government co-contribution	Yes	Yes	No	No

* Subject to meeting work test in the year of contribution.

** OK in year of reaching 65 if work test has been met.

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Excess contributions

Recent changes to superannuation have eased the very significant penalties which were previously applied to excess concessional contributions.

Unfortunately, no relief has been provided in regards to the potentially heavy penalties for exceeding the non-concessional contributions cap. Any amount in excess of the non-concessional contributions cap will be taxed at the rate of 46.5% - almost half the excess.

The situation with excess concessional contributions is:

- the amount will be taxed in the fund at the rate of 15%;
- any excess concessional contributions will be included in the personal income tax return of the individual for that relevant year;
- the individual will receive a 15% tax offset for the amount of excess concessional contributions included in their income tax return, as compensation for the tax already applied to the contributions in the superannuation fund;
- interest may be payable on the resulting tax adjustment;
- the individual may elect to have their superannuation fund release up to 85% of the excess concessional contributions (i.e. 100% less 15% tax paid);

- the superannuation fund will pay the released amount to the ATO;
- the amount paid will be included as a credit in the individual's income tax return; and
- after allowing for the additional tax and interest, the surplus will be paid to the individual.

Taxation of contributions

As mentioned previously, non-concessional contributions are not taxed upon receipt by the superannuation fund, but excess non-concessional contributions are taxed at the rate of 46.5%.

Concessional contributions are generally taxed in the fund at the rate of 15%. An exception to that rate applies to higher income earners (i.e. those with 'adjusted income' in excess of \$300,000) following recent Government changes. At least a portion of the concessional contributions made by or on behalf of those classified as higher income earners are taxed at the rate of 30%.

To calculate the adjusted income for a high income earner, the amount of concessional contributions is added to their taxable income (and possibly some fringe benefits) to determine if that income (their adjusted income) exceeds \$300,000. If the individual's income, prior to the addition of the concessional contributions,

was less than \$300,000, only the amount in excess of \$300,000 will be subject to tax at the rate of 30%. That tax will be calculated by the ATO and an assessment will be issued to the relevant superannuation fund.

Conclusion

Maximising contributions to superannuation can provide significant advantages, from both a retirement benefit and taxation perspective, whilst penalties for exceeding the permitted contribution caps can result in a significant tax penalty and, as a result, a reduction in retirement benefits.

Therefore, it is recommended you check with your adviser before making significant contributions to superannuation, so as not to waste the opportunities which exist.

More information

Should you have any queries or require more information, please contact the team at Topdocs on 1300 659 242.

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