LORREQUER
Wealth & Advisory

Co-contribution

Making a non-concessional contribution into superannuation to attract a co-contribution provides a significant boost to your retirement savings.

Benefits

- Your retirement savings will increase more quickly due to the compounding effect of making personal contributions and receiving the superannuation co-contribution.
- Your tax-free component will increase. This component is not taxable if withdrawn prior to age 60 or if paid to a non-tax dependent (such as an adult child) after your death.
- The additional contributions can help to cover the cost of insurance premiums if you hold insurance inside superannuation.
- You may be able to achieve a higher after-tax rate of return compared to investing outside superannuation because earnings inside superannuation are taxed at a maximum rate of just 15%, whereas earnings outside superannuation are generally taxed at your marginal tax rate.

How it works

The superannuation co-contribution is a government initiative to help people on low to medium incomes to boost their superannuation savings. To be eligible for the co-contribution, you need to meet all of the following criteria:

- make an eligible non-concessional (after-tax) contribution into a complying superannuation fund during the financial year (and before you reach age 70)
- have total income (minus any allowable business deductions) for the financial year less than $52,697 for the 2018/19 financial year
- have 10% or more of your total assessable income coming from employment or business income (or a combination of both)
- have not held a temporary visa at any time during the financial year (unless you are a New Zealand citizen or holder of a prescribed visa)
- lodge an Australian income tax return for the relevant financial year
- in addition, from 1 July 2017:
    - you have a total superannuation balance of less than $1.6 million at 30 June prior to making your contribution
    - you have not made non-concessional contributions of more than $100,000.

If you are an employee, your total assessable income to determine eligibility is the sum of your assessable income (before tax deductions), reportable fringe benefits and reportable employer superannuation contributions (which include salary sacrificed contributions). If you are self-employed, your total income is your gross assessable income (before business deductions).

The Australian Tax Office (ATO) will determine your eligibility for the co-contribution after receiving your tax return for the relevant year.

Calculating your entitlement

If eligible, the ATO will pay your co-contribution directly into your superannuation account. This payment is tax-free and does not affect your taxable income.

Your entitlement is based on the amount you have contributed into superannuation and your total annual assessable income. If your total annual assessable income is less than $37,697 you could receive up to $500, with the government co-contributing $0.50 for every dollar you contribute until this limit is reached.

If you have higher income your maximum co-contribution reduces by 3.333c for every dollar that you earn over $37,697. You will not receive any co-contribution if your total annual assessable income exceeds $52,697 for the 2018/19 financial year.

If you run your own business, your gross income (before deductions) is used to check that at least 10% of your total income is from business, so you can apply for co-contribution. But when you are calculating how much you can receive, your net business income (after-deductions) is used. Deductions for personal superannuation contributions are not included.

Example:
Alice earns $45,000 per year from a small business she runs as a sole trader. She also has $11,000 per year of income from interest and dividends and $13,000 of business tax deductions. Alice is eligible to receive co-contribution if she makes personal contributions as her gross business income ($45,000) is more than 10% of her total income ($56,000).

The maximum co-contribution Alice is eligible to receive depends on her net taxable income ($45,000 - $13,000 + $11,000 = $43,000). This is above the lower threshold. Her maximum co-contribution is reduced to $323.25 if she makes a non-concessional contribution of $1,000.00.

Consequences

- Contribution caps apply to superannuation contributions. Your personal contribution into superannuation counts towards your NCC. If you exceed your NCC cap, tax penalties can apply.
- From 1 July 2017 you cannot make a non-concessional contribution if you have a total superannuation balance of $1.6 million or more at 30 June.
- Excess amounts can be retained in the accumulation phase where tax at 15% continues to apply.
- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- All contributions to super are preserved until you meet a condition of release. You need to be sure that you do not need access to the amount contributed until you retire.
- The government may change superannuation legislation in the future.

Date: 1 July 2018