LORREQUER
Wealth & Advisory

Personal deductible contributions

Making a personal contribution into superannuation and claiming a tax deduction for the contribution (otherwise known as a concessional contribution) increases your retirement savings and reduces your income tax payable.

Benefits

- Investing in superannuation boosts your savings to help meet your retirement goals.
- The rate of return inside superannuation may be higher after-tax than investing outside superannuation. This is because earnings inside superannuation are taxed at a maximum rate of just 15%, whereas earnings from non-superannuation investments are generally taxed at your marginal tax rate. This helps your savings to grow faster.
- Savings can grow by making contributions from pre-tax money, with only 15% tax deducted from the contributions. High income earners may pay an additional 15% tax on all or part of the concessional contributions.
- You will be eligible to claim a tax deduction for the amount of the contribution which will reduce your taxable income and the amount of income tax you pay. This can increase your disposable income or increase the amount you can invest.
- Tax efficiencies can also be created by carefully planning when disposing of assets to reduce capital gains tax.
- The additional contributions can help to cover the cost of insurance premiums if you hold insurance inside superannuation.

How it works

You need to be under age 65 or be between the ages of 65 and 75 and have worked at least 40 hours within 30 consecutive days within the financial year to be eligible to make any contributions.

This deduction reduces your taxable income and the tax you would otherwise pay. The contributions are however taxed at 15% upon entry into superannuation. If your 'income' is over $250,000 you may pay an additional 15% tax on part or all the deductible contributions.

Notifying the fund of intentions

To claim the tax deduction, you need to lodge a notice of deductibility form with the trustee of the fund by the earlier of:

- the day you lodge your tax return for the financial year
- the end of the financial year after the year in which the contribution was made
- commencing an income stream from the fund

- withdrawing or rolling money out of the fund
- lodging an application to split contributions to a spouse.

You should not claim the deduction until you have lodged the form and received an acknowledgement notice from the superannuation fund trustee.

Once lodged, you cannot revoke it but if you have made an error or change your mind you can reduce the amount to be claimed as a deduction. It can even be reduced to nil.

Contribution caps

There is a cap on how much can be contributed as concessional contributions each year. The concessional contribution cap for 2018/19 is $25,000 . The removal of the age based caps ensures that everyone has access to the same contribution limits and that tax is not applied on an age basis.

This cap includes not only any personal contributions that you claim a tax deduction for, but also any amounts paid on your behalf by an employer. There are certain other contributions that may also count (eg distributions from superannuation fund reserves).

If the cap is exceeded you will pay tax on the excess at your marginal rate less the 15% already paid within your superannuation fund. Interest penalties will also apply. You can withdraw the excess from superannuation so it is not also counted towards the non-concessional contributions cap.

Catch up Concessional Contributions

From 1 July 2018, you may be able to accrue your unused Concessional Contributions and carry these amounts forward to enable you to make Concessional Contributions in excess of your annual cap in subsequent years. Amounts will be carried forward on a five year rolling basis. As the new regime will only apply to unused amounts accrued from 1 July 2018, the first year you may be eligible to use a carried forward amount will be the 2019/20 financial year. To make use of a carried forward Contribution Contributions, your super balance cannot exceed $500,000 on the 30 June of the previous financial year. Unused amounts which you have not used within five years cannot be carried forward.

Low Income Superannuation Tax Offset (LISTO)

From 1 July 2017, if you have an adjusted taxable income of less than $37,000 you may receive a LISTO contribution from the Government paid into your superannuation fund equal to 15% of your total concessional super contributions for an income year, capped at $500.

The ATO will determine your eligibility for the Low Income Superannuation Tax Offset and advise your superannuation fund annually.

Consequences

- A deduction can only reduce your taxable income to nil. It cannot create a loss.
- If you are over age 75, deductions can only be claimed for contributions made before the 28th day of the month following the month in which you turned age 75.
- Personal deductible contributions are a reportable super contribution. This means the contribution is not included in your assessable income, but is included on your tax return for the purpose of determining your eligibility to certain benefits, concessions and obligations.
- The deductible contributions are added to your taxable component. Tax will be payable if you access these amounts before age 60 or if they are paid as a death benefit to non-tax dependents (eg adult children).
- You should confirm your eligibility for the deduction with your accountant as well as the amount of deduction that is appropriate for your overall tax situation.
- 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.
- Tax and other penalties apply if you exceed your concessional contribution limits.
- From 1 July 2017 the total amount of super monies used to start pensions will be capped at $1.6 million. All superannuation income streams are assessed against the transfer balance cap regardless of when it first commenced. You can retain excess amounts in your accumulation accounts 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.
- The government may change superannuation legislation in the future.

Date: 1 July 2018