LOWE LIPPMANN

LOWE LIPPMANN FINANCIAL SERVICES

CONTRIBUTIONS TO SUPER

CONCESSIONAL CONTRIBUTION (SELF-EMPLOYED)

A Concessional Contribution is a contribution made to one's superannuation fund for which a tax deduction is claimed. A tax deduction is allowed for personal super contributions if:

- You are under 75 years of age.
- You satisfy the 10% rule, which states that the amount you earn as an employee must be less than 10% of your combined assessable income and reportable fringe benefits for that income year. This is the case regardless of whether your employer has paid super on your behalf.
- You have advised your super fund of the amount you intend to claim as a deduction.

Generally, the people eligible for a tax deduction for personal super contributions include the self employed or substantially self employed (i.e. those who only derive a small part of their income from employment).

A person can only claim a tax deduction for contributions made to superannuation if less than 10% of the following relates to employment related activities for the purposes of Superannuation Guarantee provisions:

- Assessable income
- Reportable Fringe Benefits and
- Reportable employer superannuation contributions (eg salary sacrifice).

This removes the ability to 'double up' salary sacrifice and personal concessional contributions in most circumstances.

Concessional Contributions are currently limited to $25,000 per annum for those under 50 years of age and $50,000 for those over age 50 on the last day of the financial year. This amount includes any Superannuation Guarantee payments made by your employer.

These contribution limits will continue until 30 June 2012, after which time the concessional contribution limit of $50,000 will only be retained for those aged 50 or older with a superannuation balance of less than $500,000.

NON-CONCESSIONAL CONTRIBUTION

A Non-Concessional Contribution is a contribution to one's superannuation fund for which a tax deduction is not claimed. A Non-Concessional Contribution enables you to contribute a sum of money for which no contribution taxes are incurred and thus the whole amount is invested.

Non-Concessional Contributions do not include:

- Government Co-Contributions
- Contributions relating to personal injury payments
- Contributions from the disposal of small business assets (up to $1.1 million indexed as at 1 July 2009)
- Contributions paid out as a super benefit in the same year that they are contributed as an untaxed element (this would generally apply to untaxed schemes)
- Roll-over superannuation benefit
- Amounts that are specifically excluded from a fund's assessable income because they are included in the Concessional Contributions cap.
- Contributions made directly by a taxpayer into their spouse's account will be counted against the receiving spouse's Non-Concessional Contribution cap.

Non-Concessional Contributions are capped at $150,000 a year (six times the indexed Concessional Contribution cap) or $450,000 averaged over a three year period provided you are under the age of 65. It is important to note that contributions in excess of the cap will be taxed at 46.5% (including Medicare levy).

SUPERANNUATION GUARANTEE CONTRIBUTIONS (SGC)

The Superannuation Guarantee (SG) is a Commonwealth Government program that has applied from 1 July 1992. The program requires all employers to make minimum contributions to a complying superannuation fund for their employees. An employer includes the public and private sector, tax exempt organisations and family companies or trusts if they pay salary or wages.

The current annual rate of SGC is equal to 9% of Ordinary Time Earnings (required to be paid at least quarterly). The maximum level of salary used to calculate SG is $160,680 for the financial year 2009/10, equating to maximum compulsory contributions of $14,461 per annum.

Employers have 28 days after the end of the quarter to pay the required SG amount for employees, if they do not do so, then they are required to pay the Superannuation Guarantee Charge (SGC).

SPOUSE CONTRIBUTION

A Spouse Contribution is a contribution made by one spouse to their spouse’s superannuation fund for the benefit of building retirement assets.

The main income earner generally makes a Spouse Contribution to their non-working or low income earning spouse’s superannuation fund.

Where the assessable income of the recipient spouse is less than $13,800 the contributing spouse is entitled to receive a tax offset up to 18%. The tax offset can only be claimed on the first $3,000 contributed, therefore the maximum tax offset the contributing spouse may be entitled to is $540.

Note that in order to implement the strategy the receiving spouse must be under age 65, or aged 65-69 and gainfully employed on at least a part time basis.

GOVERNMENT CO-CONTRIBUTION

In order to qualify for the Government co-contribution, the following criteria must be met:

- You must make an eligible personal contribution to superannuation.
- 10% or more of your income for the financial year must be sourced from activities which result in being treated as an employee for superannuation guarantee (SG) purposes or alternatively from carrying on a business.
- Your 'total income' must be less than $61,920 for the financial year.
- You must be less than 71 years of age on the last day of the financial year.
- You must lodge an income tax return.

Where your 'total income' is less than $31,920 in a financial year, the government will contribute $1 for every $1 of non-concessional contributions you make up to a maximum of $1,000. The co-contribution 'shades out' by 3.333 cents for each dollar for incomes above $31,920, and the entitlement ceases once your total income reaches $61,920 per annum.

For co-contribution purposes, 'total income' is equal to assessable income plus reportable employer superannuation contributions (eg salary sacrifice) plus reportable fringe benefits.

You do not need to claim for the co-contribution as the ATO will work out if you are entitled based on the information from your superannuation fund and your tax return.

The benefits of this recommendation are:

- You will boost your superannuation savings with no additional cost incurred by yourself.
- No contribution tax will apply as no tax deduction will be claimed for the contribution.
- The co-contribution is treated as a Non-Concessional contribution which has favourable tax concessions.

CONTRIBUTIONS SPLITTING

The government allows super fund members to split up to 85% of concessional contributions (i.e. all employer contributions including Salary Sacrifice and member concessional contributions).

Where the fund provides a contribution splitting service (this is not compulsory), members will need to apply to the Trustee after the end of each financial year to split contributions made in the previous financial year, or for contributions in the current year, at the time of a full rollover.

It is important to note that Trustees will only process a splitting request where the receiving spouse has not already met a condition of release (i.e. reached age 65 or retired after reaching preservation age).

In the case of Concessional Contributions, the tax deduction will be claimed by the contributing member. The contributing spouse is subject to the Concessional Contributions Cap which is currently $25,000 if you are less than 50 years of age or $50,000 if you are over 50 years of age on the last day of the financial year.

SALARY SACRIFICE

Salary Sacrificing involves foregoing salary income and subsequently using pre tax money, through an arrangement with your employer, to obtain benefits which don't incur income tax.

The benefit from Salary Sacrifice comes from the difference between the income tax that would have been paid on the amount, and the rate of tax (contributions tax or fringe benefits tax) payable on the item under the Salary Sacrifice arrangement.

Salary sacrifice contributions are classified as Concessional Contributions. Concessional Contributions are currently limited to $25,000 per annum for those under 50 years of age and $50,000 for those over age 50 on the last day of the financial year. This amount includes any Superannuation Guarantee payments made by your employer.

These contribution limits will continue until 30 June 2012, after which time the concessional contribution limit of $50,000 will only be retained for those aged 50 or older with a superannuation balance of less than $500,000.