

Superannuation – Personal deductible contributions

Making a personal contribution into superannuation and claiming a tax deduction for the contribution may help to increase your retirement savings and may also reduce your income tax payable.

How it works

To claim a tax deduction for a personal contribution, you will first need to make an eligible personal contribution to superannuation. Generally, you are eligible to contribute to superannuation if you are:

- under age 67
- age 67 – 74 and have met the ‘work test’, or
- age 67 – 74 and meet the requirements for the ‘work test exemption’.

The ‘work test’ requires that you have worked at least 40 hours over a consecutive 30-day period in the financial year the contribution is made. The ‘work test exemption’ provides a one-year relief from the work test for recent retirees. It is available if:

- you met the work test in the financial year immediately prior
- your total superannuation balance is less than \$300,000 as at the prior 30 June, and
- you have not previously utilised the exemption (i.e. the exemption can only be applied once in your lifetime).

The total superannuation balance includes your accumulation accounts, retirement phase income streams, in transit rollovers and may also include certain limited recourse borrowing arrangements in self-managed super funds.

Contributions must generally be accepted no later than 28 days after the month in which you turn 75.

Notifying the fund of intentions

To claim the tax deduction, you need to lodge a Notice of Intent 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.

Once you have lodged a Notice of Intent with your fund, you cannot revoke it. However, if you have made an error or no longer wish to claim a deduction for the amount originally noted, you can reduce the amount you wish to claim in part (including to nil) by lodging a valid Variation Notice. It is important to understand that, similar to lodging a Notice of Intent, there are certain conditions and timeframes within which you must lodge the variation notice for it to be valid. For more information see ato.gov.au.

Contribution caps

If you claim a deduction for a personal contribution, the amount is included as a concessional contribution and counts towards your concessional contributions cap.

There is a cap on how much can be contributed as concessional contributions each year without incurring additional rates of tax. The concessional contribution cap for the 2021/22 financial year is \$27,500.

Concessional contributions also include contributions your employer is liable to make on your behalf (e.g. Superannuation Guarantee contributions) and salary sacrifice contributions. There are certain other contributions that may also count (e.g. distributions from superannuation fund reserves).

Tax applies on your concessional contributions at a rate of up to 15%. If you're a high income earner, and have income from certain sources in excess of \$250,000 (income threshold applies in the 2021/22 financial year) you may be subject to an additional 15% tax on your concessional contributions within the cap.

If the concessional cap is exceeded, you will pay tax on the excess contribution at your marginal rate less the 15% already paid within your superannuation fund. You can elect to withdraw the excess from superannuation. If you don't make this election, the excess amount is also counted towards the non-concessional contributions cap. Additional tax penalties may also apply if you exceed the non-concessional contribution cap.

Catch up Concessional Contributions

Since 1 July 2018, you are able to accrue your unused concessional contributions cap and carry these amounts forward. If you're eligible, you may be able to make concessional contributions in excess of the general annual cap in subsequent years. Amounts will be carried forward on a five year rolling basis before they expire. The regime only applies to unused amounts accrued since 1 July 2018, so only unused concessional contributions from that point can be carried forward. To make use of a carried forward concessional contribution, your total superannuation balance cannot exceed \$500,000 on the 30 June of the previous financial year.

Low Income Superannuation Tax Offset (LISTO)

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 superannuation contributions for an income year, capped at \$500.

The Australian Taxation Office (ATO) will determine your eligibility for the LISTO and advise your superannuation fund annually.

Benefits

These may include:

- Investing in superannuation may help to boost your savings to 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.

- Superannuation savings can grow by making contributions from pre-tax money, with a maximum tax rate of 15% on contributions. High income earners may pay an additional 15% tax on all or part of their concessional contributions.
- Tax efficiencies may also be created by carefully planning when disposing of assets to reduce capital gains tax.
- The additional contributions may help to cover the cost of insurance premiums if you hold insurance inside superannuation.

Risks, consequences and other important things to consider

These may include:

- A deduction can only reduce your taxable income to nil. It cannot create an income loss.
- If you are age 75 or over, 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 superannuation 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 dependants (e.g. adult children) as a lump sum or to eligible dependants as an income stream if you're under age 60 when you pass away and your beneficiary is also under 60.
- 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 superannuation are preserved (i.e. cannot be accessed) until you meet a condition of release, such as retirement after you reach preservation age. You need to be sure that you do not need access to the amount contributed before you meet a condition of release.
- Tax and other penalties may apply if you exceed your contribution caps.
- You can't claim a tax deduction for contributions you make that are 'downsizer contributions' or amounts previously withdrawn under the COVID-19 compassionate grounds condition of release.
- 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.

Version: 3.0

Issue date: 01 July 2021

Important information:

This document has been prepared by Actuate Alliance Services Pty Ltd (ABN 40 083 233 925, AFSL 240959) ('Actuate'), a member of the IOOF ('IOOF') group of companies ('IOOF Group'), for use and distribution by representatives and authorised representatives of Actuate, Godfrey Pembroke Group Pty Limited, Consultum Financial Advisers Pty Ltd, Bridges Financial Services Pty Limited trading as MLC Advice and Australian Financial Services Licensees with whom any IOOF Group member has a commercial services agreement.

Information in this document is of a general nature only and does not take into account your objectives, financial situation or needs. You should seek personal financial, tax, legal and such other advice as necessary or appropriate before relying on the information in this document or making any financial investment, insurance or other decision. If this document is provided to you in conjunction with a Statement of Advice ('SOA'), any personal financial advice relevant to the financial planning concept/strategy referred to in this document will be contained in that SOA.

Information in this document reflects our understanding of relevant regulatory requirements and laws etc as at the date of issue, which may be subject to change. While care has been taken in preparing this document, no liability is accepted by Actuate or any member of the IOOF Group, nor their agents or employees for any loss arising from any reliance on this document.

If any financial product is referred to in this document, you should consider the relevant PDS or other disclosure material before making an investment decision in relation to that financial product.