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Superannuation

A Financial Planning Guide

Superannuation

Using superannuation as a savings vehicle is a tax-effective way to increase your savings to meet your retirement goals.

Benefits

- Contributions into superannuation can be tax-effective, particularly if made under a salary sacrifice arrangement or if the contributions are tax deductible, because the contributions are effectively being made with pre-tax money.
- 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 marginal tax rates. This helps savings to grow faster.
- Superannuation money is tax-free if withdrawn after age 60 (unless withdrawn from an untaxed fund).
- Superannuation can be used to provide a tax-effective income stream in retirement.

How it works

Superannuation is a savings vehicle designed to help you save for retirement. Superannuation funds that comply with Australian law receive generous tax concessions which provide an incentive for you to save for your own retirement. Your account balance generally consists of contributions from your employer, your own personal contributions and earnings from investments.

Most superannuation funds will allow you to select how your money is invested and will usually offer a selection of investments based on local shares, property and or fixed interest. As different asset classes offer different levels of risk, it's important to choose wisely and get advice.

Contributions

Eligibility to contribute to superannuation is based on your age. Anyone under the age of 65 is automatically eligible to contribute, but from age 65-75 you must meet a work test. Once you reach age 75, contributions generally cannot be made unless the contributions are mandated employer contributions required under an agreement or award.

Age	Requirement
Under age 65	No restrictions.
65 – 74	You must have been gainfully employed for at least 40 hours within any 30 consecutive day period during the current financial year before the contribution can be made or the contributions are mandated employer contributions. Or, if between 65 and 75 and permanently retired, you have a 12 month period from the end of the financial year that you last met the work test to contribute to superannuation, provided your total superannuation balances are less than $300,000 on the 1st July of the year that you previously met the work test.
75 or over	Only mandated employer contributions (such as SG) can be made.

Contributions to super are split into categories with caps applying to each category. The most commonly used caps are the *concessional contribution cap* and the *non-concessional contribution cap*. A CGT cap is also available to small business owners who sell eligible business assets.

The caps are intended to limit the amount of tax concessions relating to superannuation and to encourage people to save for retirement over a lifetime rather than only in the few years prior to retirement. Contribution caps are indexed periodically.

Concessional contributions

From 1 July 2017, your annual Concessional Contribution cap is $25,000. In addition, the removal of the age based caps (used in previous years) ensures that everyone has access to the same contribution limits and that tax is not applied on an age basis.

Concessional contributions generally consist of contributions made from pre-tax income (such as superannuation guarantee (SG) and salary sacrifice) or contributions for which a deduction has been claimed (personal deductible contributions).

If you exceed your concessional contribution cap, excess contributions are taxed at your marginal tax rate, less the 15% tax already deducted within the fund. An interest penalty 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 the 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.

Concessional contribution tax for high income earners

If your 'income' exceeds $250,000, some or all of your concessional contributions are subject to an additional 15% tax. Here, 'income' includes:

- taxable income (including the net amount on which family trust distribution tax has been paid)
- reportable fringe benefits
- total net investment loss (including net financial investment loss and net rental property loss)
- non-excessive concessional contributions.

The additional 15% tax applies to any non-excessive concessional contributions that result in your 'income' exceeding the $250,000 threshold during a financial year.

Non-concessional contributions

Non-concessional contributions generally consist of contributions from after-tax income, such as personal non-deductible contributions and spouse contributions.

The annual *non-concessional* contribution cap for the 2019/20 financial year is $100,000. But if you are under age 65 on 1st of July in a financial year you may be able to trigger the 'bring-forward' rule to make larger contributions.

The 'bring-forward' rule effectively groups contributions over a three year period. It allows you to bring forward two years' worth of non-concessional cap and add it to the current year's cap. But you can only contribute up to $300,000 over the three year period. This rule is particularly useful if you are selling a large

asset (such as an investment property) and want to contribute the proceeds into superannuation. The bring-forward rule is automatically triggered if you exceed your annual non-concessional limit. Once triggered, your non-concessional contribution cap will not be indexed for the next two years.
If you do not fully utilise the existing NCC bring-forward limit of $540,000 before 1 July 2017 you will be subject to transitional provisions to determine your maximum available NCC cap. These rules are complex and you should consult with your financial adviser to determine your personal NCC cap.

From 1 July 2017 *you must have total super savings of less than $1.6 million at 30 June to be eligible to make any NCCs the following year.*

If you are utilising the bring-forward rule the limit will reduce if your total superannuation savings are more than $1.4 million on the 30th of June prior to the financial year in which you trigger the bring-forward rule. These rules are complex so it is important that you get advice.

If you exceed your non-concessional contribution cap, you can choose to have the excess contributions and 85% of associated earnings (as calculated by the Tax Office) refunded with penalty tax only applied to the earnings. If not withdrawn, the excess contributions are taxed at the highest marginal tax rate. The tax payable must be withdrawn from superannuation.

Downsizer contributions

If you are aged 65 or older, you may be able to make a downsizer contribution into your superannuation of up to $300,000 from the proceeds of selling your main residence.

In order to be eligible, among other things, the contract for sale of the property must be entered into (exchanged) on or after 1 July 2018 and:

- the property must be in Australia and not be a caravan, mobile home, or houseboat
- the property must have been owned by you, and/or your spouse, for at least ten years prior to disposal
- the property must be eligible for at least a partial capital gains tax (CGT) main residence exemption

A downsizing contribution can be made regardless of your 30 June Total Super Balance (TSB). However, once a downsizing contribution is made, it will increase your TSB for the future application of that test.

A maximum contribution of $300,000 per person is permitted and must be accompanied by a prescribed election form. However, this may be limited by the actual sale proceeds of the house. Downsizing contributions will not be included in any contribution cap.

The downsizing contribution legislation does not provide any extension or exemption from the pension transfer balance cap for these contributions.

You can only make downsizing contributions for the sale of one home. You can't access it again for the sale of a second home. There is also no requirement for you to purchase another home.

Downsizer contributions are not tax deductible.

Conditions of release

To access your superannuation account balance, you first need to meet a condition of release.

You will automatically meet a condition of release once you turn age 65. Prior to age 65, you can meet a condition of release if you (a) cease a gainful employment arrangement after having turned age 60 (even if you are still working in another job), or (b) retire after having reached your preservation age.

Your preservation age is based on your date of birth, as shown in the following table:

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
1 July 1964 or later	60

In very limited circumstances a condition of release may be met before age 65 or retirement. These circumstances include being temporarily or permanently disabled, being in severe financial hardship or on compassionate grounds (e.g. to pay for medical costs).

Protecting your super changes (from 1 July 2019)

The new ‘Protecting your Super’ law came into effect from 1 July 2019 and bring with it a collection of super reforms aimed at protecting the retirement savings of Australians from being eroded by fees and insurance premiums so members have more money to live on in retirement.

The key changes to be aware of are:

- **Cancelling insurance in inactive super accounts** - superannuation providers must cancel a member’s insurance cover in their super if their super account has been inactive, that is, hasn’t received a contribution or rollover for a continuous period of 16 months, unless the member specifically elects to keep their insurance. If this applies to your insurance in your super account, you’ll be sent a notice before any insurance is cancelled. Please make sure your contact details are up to date.
- **ATO transfer of inactive low balance accounts** - if your super account has a balance of less than $6,000, has not received a rollover or contribution in the past 16 months and has no insurance, it will be transferred to the ATO (some exemptions apply). Transfers to the ATO occur twice a year in accordance with legislated timeframes.
- **Fee cap introduced for low balance accounts** - if your balance is below $6,000, you will not pay more than 3% of your account balance in administration fees, investment fees and indirect costs per financial year. An assessment will occur each 30 June, or at your date of exit from the fund, to see if you have paid more than 3% in fees, and any excess payments will be refunded.

Consequences

- It is important that you keep track of your superannuation contributions to ensure you don’t exceed your contribution caps.
- Superannuation may not provide a better after-tax rate of return than non-super investments if your marginal tax rate is less than 15%.
- All contributions to superannuation are preserved until you meet a condition of release.
- 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 and on transfers between funds. 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 September 2019

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 $53,564 for the 2019/20 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 $38,564 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 $38,564. You will not receive any co-contribution if your total annual assessable income exceeds $53,564 for the 2019/20 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 $352.15 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 2019

Non-concessional contributions

Making non-concessional contributions into superannuation increases your retirement savings and your tax-free component.

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.
- Your tax-free component will increase. This amount can be withdrawn tax-free at any age (subject to preservation rules).
- The tax-free component is not taxable if paid as a lump sum death benefit to any of your dependents (even adult children). This can increase the amount payable to your family or estate.
- The contribution strategy can help to reduce potential tax payable when receiving future account-based pension payments between preservation age and age 60.
- Depending on your income for the year and satisfying eligibility requirements, the Government may contribute $0.50 for every $1.00 of non-concessional contributions you make, up to a maximum of $500.

How it works

To be eligible to contribute to superannuation, you must be either under age 65, or 65-75 and have worked at least 40 hours in any 30 consecutive days in the current financial year. Or, if between 65 and 75 and permanently retired, you have a 12 month period from the end of the financial year that you last met the work test to contribute to superannuation, provided your total superannuation balances are less than $300,000 on the 1st July of the year that you previously met the work test.

Non-concessional contributions are made from after-tax income and include:

- personal contributions where you have not claimed an income tax deduction
- after-tax salary that you have requested your employer to direct into superannuation on your behalf
- spouse contributions
- contributions in excess of your capital gains tax (CGT) cap from business assets
- most transfers from foreign superannuation funds.

Non-concessional contributions do not include superannuation guarantee (SG) contributions, salary sacrifice or certain contributions resulting from personal injury payments.

Non-concessional contributions form part of the tax-free component of your super account, which is tax-free when withdrawn from super, even whilst you are under age 60.

Non-concessional contribution caps

There is a cap on how much you can contribute as a non-concessional contribution each year. The non-concessional contribution cap for 2019/20 is $100,000.

If you are under age 65 on the 1st of July, you are able to contribute the cap amount for that year plus ‘bring forward’ the next two years’ worth of non-concessional cap to make larger contributions if needed. This rule is particularly useful if you are selling a large asset (such as an investment property) and want to contribute the proceeds into super. The bring-forward rule effectively allows you to contribute up to $300,000 of non-concessional contributions over a three year period.

NOTE: If you did not fully utilise the old NCC bring-forward limit of $540,000 before 1 July 2017 you will be subject to transitional provisions to determine your maximum available NCC cap. These rules are complex, and you should consult with your financial adviser to determine your personal NCC cap.

From 1 July 2017 *you must have total super savings of less than $1.6 million at 30 June to be eligible to make any NCCs the following year.*

If you are utilising the bring-forward rule, the limit above will reduce if your total superannuation savings are more than $1.4 million on the 30th of June prior to the financial year in which the bring-forward rule is triggered. These rules are complex, so it is important that you get advice.

If you exceed your non-concessional contribution cap, you can choose to leave the excess in superannuation and pay excess tax at the top marginal tax rate (plus levies) or you can withdraw the excess and 85% of associated earnings (as calculated by the Tax Office) and pay tax on the earnings component at your marginal rate plus interest penalties.

Consequences

- 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.
- If you exceed your NCC cap excess contribution tax penalties may apply.
- From 1 July 2017 if you have total superannuation savings of $1.6 million or more at 30 June you will not be eligible to make non-concessional contributions.
- 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 September 2019

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. Or, if between 65 and 75 and permanently retired, you have a 12 month period from the end of the financial year that you last met the work test to contribute to superannuation, provided your total superannuation balances are less than $300,000 on the 1st July of the year that you previously met the work test.

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 2019/20 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 September 2019

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