

# A guide to boosting your super

Super is a great way to save for your retirement as concessional contributions are taxed at a concessional rate and withdrawals are tax-free after you turn 60. But you have to meet certain conditions to be able to contribute – and there are limits to how much you can contribute.

## Are you eligible to contribute?

Age	Conditions you must meet
Below 65	<ul style="list-style-type: none"> <li>You can contribute whether or not you're working</li> </ul>
65-69	<ul style="list-style-type: none"> <li>You have been gainfully employed for at least 40 hours in a period of not more than 30 consecutive days in the financial year; or</li> <li>Contributions are mandated (award or superannuation guarantee)</li> </ul>
70-74*	<ul style="list-style-type: none"> <li>You have been gainfully employed for at least 40 hours in a period of not more than 30 consecutive days in the financial year; or</li> <li>Contributions are mandated (award)</li> </ul>
Age 75+	<ul style="list-style-type: none"> <li>Contributions must be mandated (award)</li> </ul>

\* Other than for mandated contributions, the contribution must be received on or before the day that is 28 days after the end of the month in which you turn 75.

## Concessional contributions

Concessional contributions are those contributions made into your super fund for which either you or your employer has claimed a tax deduction. Typically, these will include:

- employer superannuation guarantee (SG) contributions
- salary sacrificed contributions
- contributions made by self-employed persons.

## SG contributions

If you are employed and under 70 years of age, it's compulsory for your employer to make SG contributions to super on your behalf, currently 9% of your gross salary. SG contributions are paid into your super fund pre-tax and taxed in the super fund at 15%.

## Salary sacrifice contributions

Salary sacrificing some of your pay to super can be a very tax-effective way to increase your retirement savings. Instead of paying tax at your marginal rate on your money, when you salary sacrifice to super it's taxed in the super fund at a maximum rate of 15%.

## Case study – Joan

Joan earns \$50,000 per annum and is considering sacrificing 6% (\$3,000) of her salary to her super fund.

	No salary sacrifice (\$)	\$3,000 (6%) salary sacrifice (\$)
Pre-tax salary	50,000	47,000
Tax on salary	9,350	8,285
Total super contributions	4,500	7,500
Tax on super contributions	675	1,125
Salary plus super benefits	44,475	45,090
Total tax paid on salary and super	10,025	9,410
<b>Total tax saved</b>		<b>615</b>

Although Joan's weekly income is less, her overall annual package has increased by \$615 (the tax she saves) and her super gets a boost for when she retires.

## Self-employed contributions

If less than 10% of your combined income and reportable fringe benefits are from your role as an employee, you may be eligible to claim a tax deduction for a contribution to super.

### Case study – Sue

Sue is a self-employed freelance journalist so she doesn't receive any SG contributions. During the year, Sue has earned \$90,000 from her journalism work and from the return on her various personal investments.

After discussions with her financial adviser, Sue decides to contribute \$10,000 into a personal super account. Being self-employed, she claims a tax deduction for the contribution - a personal tax saving of \$4,150 based on her 41.5% marginal tax rate. The contribution will be taxed at 15%, so overall Sue saves \$2,650 in tax.

Sue now has the added benefit of extra money in super that can grow in a tax-effective environment to help fund her future retirement goals.

## Limits on concessional contributions

Because of the generous tax concessions, there is a cap on the level of concessional contributions you can make. For most people this cap is \$50,000 per annum, but if you're over 50 the cap is \$100,000 per annum until 30 June 2012.

If you exceed this cap in a particular year, the excess contributions over the cap will be taxed at 31.5% (that's in addition to the 15% tax already paid by the super fund). The tax bill for this will be sent to you (not your super fund) but your super fund will allow you to withdraw money to pay this liability.

## Non-concessional contributions

Contributions you make to a super fund for which you are not entitled to a deduction are called non-concessional contributions. These include:

- any additional personal after-tax contributions you make
- if you're self-employed, any personal contributions for which you don't claim a tax deduction
- contributions made to your spouse's super fund.

## Personal contributions

Because you haven't claimed a tax deduction for these contributions, no tax is deducted by your super fund and, when you withdraw them in the future, they'll be paid back to you tax-free.

## Government co-contribution

To encourage you to contribute extra to your super, the government may contribute up to \$1.50 for each \$1.00 of personal contribution you make. If your total income is under \$30,342 and you make personal contributions totalling \$1,000, you'll receive the maximum co-contribution of \$1,500. This reduces by 5 cents for every \$1 of your total income above \$30,342.

You'll be eligible to receive the co-contribution if:

- you make a personal super contribution to a complying fund
- your total income (assessable income plus reportable fringe benefits) is less than \$60,342
- 10% or more of your total income is from eligible employment or self-employment
- you are not a temporary resident at any time during the year, and
- you are under 71 at the end of the financial year.

### Case study – John

John is 45 and received \$40,000 salary plus reportable fringe benefits totalling \$3,000 for the 2008/2009 tax year. John's total income of \$43,000 is 100% from eligible employment, so he satisfies the 10% rule for government co-contributions.

The maximum co-contribution amount John would be entitled to is reduced by 5 cents for each dollar John earns over \$30,342. This is calculated as:

John's total income \$43,000 less \$30,342  
= \$12,658

Maximum co-contribution is reduced by \$12,658  
 $\times 0.05 = \$633$

Maximum co-contribution \$1,500 less the \$633  
reduction = **\$867**

For John to receive the maximum co-contribution amount of \$867 he will need to contribute  $\frac{2}{3}$ ths of this amount – \$578.

## Spouse contributions

Making non-concessional contributions to your spouse's super can be a very effective strategy to boost your combined retirement income if your spouse is a low-income earner.

### Conditions for making spouse contributions

Your spouse must be under 65. If they are between 65 and 70, you can only contribute to their super if they have been gainfully employed for at least 40 hours within a consecutive 30-day period during the financial year.

Additionally, both you and your spouse must be Australian residents. You won't be entitled to the tax offset if you are living separately and apart from your spouse on a permanent basis.

You can be of any age and you don't have to be working, but you must be earning at least \$1 of income to be eligible for a spouse contribution tax offset.

If your spouse's total combined income (assessable income plus reportable fringe benefits) is less than \$13,800, you may claim a tax offset of up to \$540 for the contributions you make to your spouse's super. The offset is the **least** of:

- $(\$3,000 - [\text{spouse's total income} - \$10,800]) \times 18\%$
- the spouse contribution  $\times 18\%$
- \$540

### Case study – Jane and David

Jane is a highly paid executive and her husband, David, stays home and looks after their children. David has investments in his name (for tax-planning purposes) which generate \$10,000 in income per year.

Jane and David decide they need to boost their retirement savings and so Jane makes an \$8,000\* non-concessional contribution to David's super account. As David's income is less than \$10,800, Jane will receive the maximum tax offset of \$540 – a direct saving on her personal income tax liability.

\* only a contribution of \$3,000 was actually needed to generate the maximum claimable tax offset of \$540 ( $\$3,000 \times 18\%$ )

Contributions you claim a tax offset for will still be classed as non-concessional contributions and no tax will be deducted from them, but your spouse won't be able to withdraw them until they satisfy a condition for accessing super.

If your spouse has never been gainfully employed, they can't access their super benefits before age 65 as they don't satisfy the 'retirement' condition of release.

### Limits for non-concessional contributions

There is a \$150,000 limit on the level of non-concessional contributions that can be made to your super each year. However, if you're under 65 during the income year, you can take advantage of an 'averaging rule' to contribute up to three years' worth of non-concessional contributions (or \$450,000) in one year – but if you contribute the full \$450,000, you won't be able to contribute any more in the next two years.

### Case study – Judith

Judith is 64 and about to retire. She recently received an inheritance of \$400,000 from her father's estate. Judith can contribute the entire \$400,000 to super this year. As she is about to retire, she wouldn't be able to contribute in future years as she won't meet the work test.

If you make non-concessional contributions in excess of this cap, you'll be liable for tax on the excess contributions at the rate of 46.5%. As for excess concessional contributions, you'll receive the tax bill for this but you must withdraw funds from your super to pay it.

### **In summary**

As you can see from the case studies, using super as a means to grow wealth for your retirement can be extremely tax-effective.

- Any concessional contributions to, and earnings from, your super are taxed at a maximum of 15% instead of at your marginal tax rate.
- Non-concessional contributions are not taxed when you pay them in and are returned to you tax-free, whether as part of a lump-sum payment or over time if part of a pension, in the future.
- Once you turn 60 you can withdraw your super benefits free of tax.

### **Things you should consider**

This publication provides an overview or summary only and it shouldn't be considered a comprehensive statement on any matter or relied upon as such.

The information in this publication doesn't take into account your objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it. It's important that your personal circumstances are taken into account before making any financial decision and we recommend you seek help from a financial adviser.



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