End of financial year
Super Strategies

The end of financial year is fast approaching, so now might be a good time to top up your super and help give your retirement savings a welcome boost.

Super is real money and can be a tax-effective way to fund your retirement. By the time you retire it will likely be one of your biggest assets, so putting some thought into making contributions today may help you achieve the lifestyle you want in retirement.

A little extra now can make a difference later

According to the Association of Superannuation Funds of Australia (ASFA), the weekly amount needed for a comfortable retirement for those aged 65 - 85 is approximately $1,168 for couples and $829 for singles. Making extra contributions to your super now could help you get closer to the lifestyle you want in retirement.

You could help give your super a boost in two easy ways:

1. Speak to your employer about making a before-tax contribution through salary sacrifice.
2. Make a personal after-tax contribution.

If you're aged 65 or over, remember that you'll need to satisfy a work test before you're able to make a personal super contribution. There are potential tax benefits as well:

Reduce your taxable income

If you make before-tax contributions from your salary or claim a tax deduction in your tax return for your personal super contributions, you'll lower your taxable income, which could mean less tax.

Pay less tax on investment earnings

Earnings on your super are taxed at a maximum of 15%, whereas earnings on personal investments outside of super are taxed at your personal (marginal) income tax rate. This can be as high as 45%.

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The spouse contributions tax offset

If your spouse (husband, wife, or de facto) is a low to middle-income earner or not working, you might be eligible for a tax offset if you make after-tax contributions to their super.

To be entitled to this tax offset, eligibility rules apply, and the receiving spouse must be under the age of 65, or if they're aged 65 to 69 they must meet work test requirements.

Generally, if you do make after-tax contributions to your spouse's super fund, you can claim an 18% tax offset on up to $3,000 when completing your tax return at the end of the year. But the receiving spouse's income must be $37,000 or less for you to qualify for the full tax offset and less than $40,000 for you to receive a partial tax offset.

On top of that, if you're unable to make further after-tax contributions into your own super (for instance, you may have reached your own contributions cap), contributing into your spouse's super may have benefits due to the favourable tax treatment that's generally available through super.

Things to think about

It's important to consider your circumstances before deciding what's right for you. Any money you put into your super is subject to investment return risk, and can generally only be accessed when you retire.

There are caps on how much you can contribute to your super each financial year. If you exceed these caps, additional tax and penalties may apply. Any contributions made from your before-tax income will be taxed 15% when the money reaches your super.

Contribution caps

Before-tax contributions cap – $25,000

There is a cap per financial year ($25,000 for 2018-2019) on the amount of before-tax contributions you can make. This includes salary sacrifice and compulsory contributions made by your employer on your behalf, as well as personal contributions which you claim as a tax deduction in your tax return.

After-tax contributions cap – $100,000

There's a cap per financial year ($100,000 for 2018-2019) on the amount of after-tax contributions you can make. If you're under age 65, you can also 'bring forward' up

to 3 years' worth of after-tax contributions, which means you could contribute up to $300,000 in a financial year. However, if your total superannuation balance at 30 June of the previous year was $1.6 million or more, your after-tax contribution limit will be reduced to zero.

How you could benefit

Tax deductions on personal after-tax contributions

Personal after-tax super contributions made since 1 July 2017 can be claimed as a tax deduction when you're doing your tax return. But make sure you understand the rules around timeframes and eligibility.

Because personal contributions to your super fund (which you claim a tax deduction on) will only be taxed at 15%, this produces broadly the same tax benefit offered by a salary sacrifice arrangement.

This is of benefit if your employer doesn't offer you the option to salary sacrifice, or if you receive some money that you'd otherwise pay tax on at your full marginal tax rate.

To make a personal after-tax super contribution, firstly you'll need to make a personal contribution to your super and then lodge what's called a 'Notice of intent' to claim or 'vary a deduction for personal super contributions' form with your super fund (within permitted timeframes).

Your super fund will acknowledge this in writing. Then following the end of the financial year and using the written acknowledgement from your super fund, you can prepare and lodge your tax return. If your Notice of Intent is submitted outside the ATO determined timeframe, the trustee will not be able to accept it and you will not be able to claim the deduction.

Downsizing for retirement

If you're aged 65 or over, you can make an after-tax contribution to your super of up to $300,000 using proceeds from the sale of your main residence, provided you've owned it for 10 years or longer – regardless of your work status or contribution history.

There's no upper age limit on eligibility, and if you're a member of a couple, both you and your spouse could be able to take advantage of this opportunity — meaning up to $300,000 each can be contributed toward your individual super accounts or SMSF, provided you meet all other eligibility criteria.

Of course, there are eligibility requirements and conditions which apply– so it's important to do some research before making any decisions.

Things to consider

- Any contributions into super are generally only accessible when you reach preservation age and retire. There are exceptions, such as under the First Home Super Saver Scheme.
- If you exceed the contribution cap limits, additional tax and penalties may apply.
- Before-tax super contributions will typically be taxed at 15% upon entry to your super fund.
- The value of your investment in super can go up and down. Before making extra contributions, make sure you understand and are comfortable with any risks tied to your investment option.
- You should consider your own circumstances and decide what's right for you.

Further Information

To find out more about these strategies and how you may be able to benefit, please contact:

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