



## **Changes to Superannuation contribution caps**

Contribution caps refer to the maximum amount of super you can contribute each year before you have to pay a higher tax rate on your super.

### **What are concessional (before tax) contributions?**

- All employer contributions (including salary sacrifice)
- Personal contributions for which you claim an income tax deduction (eg. self-employed people)

### **\$25,000 cap for people aged under 50**

The concessional contributions cap has been reduced to an annual cap of \$25,000 (indexed) for contributions made in 2009-2010 and thereafter.

### **Transitional \$50,000 cap for people over 50**

The concessional contributions cap for those aged 50 and over has been reduced to \$50,000 (indexed) for contributions made in 2009-2010 and thereafter.

### **What if the cap is breached?**

Contributions above the cap will be taxed at 31.5% (in addition to 15% paid by the super fund). If you exceed a contributions cap, you will receive an excess contributions tax assessment from the ATO. You will be required to pay the excess tax yourself and/or by drawing on your super. Any concessional contributions in excess of the cap will also count towards the non-concessional contributions cap.

### **No change to non-concessional (after tax) contribution cap**

There has been no change to the non-concessional contribution cap which will remain at \$150,000 for 2009-2010. Non-concessional contributions include:

- Personal member contributions (no tax deduction claimed)
- Spouse contributions
- Any excessive concessional contributions

### **Summary of contribution caps**

	<b>Concessional cap (for people under 50) *</b>	<b>Transitional concessional cap (for people over 50)</b>	<b>Non-concessional cap</b>
2009-10 financial year	\$25,000	\$50,000	\$150,000
2008-09 and 2007-08 financial year	\$50,000	\$100,000	\$150,000
Tax on amounts over the cap	31.5% (in addition to the 15% paid by super fund)	31.5% (in addition to the 15% paid by super fund)	46.5%

	<b>Concessional cap (for people under 50) *</b>	<b>Transitional concessional cap (for people over 50)</b>	<b>Non-concessional cap</b>
Other information	Any concessional contributions in excess of the cap will also count towards the non-concessional contributions cap	Any concessional contributions in excess of the cap will also count towards the non-concessional contributions cap	People under 65 can bring forward two years of contributions, allowing you to contribute up to three times the cap at once, or at any time during the three financial years.

\*This will be indexed annually from 2010-2011 onwards to average weekly ordinary time earnings and rounded down to the nearest \$5,000.

**For more information, please contact Northern Business Consultants on 07 3862 8777.**

## How can these changes be used to benefit your fund?

### *Outline of the law change*

- As at 1 July 2007 new rules were introduced in relation to how much contributions a super fund can accept from an employer without the super fund having to pay tax over an above the normal 15% applicable to super fund income. The employer can not claim a tax deduction for any amount put into super for an employee with no restrictions. In the fund however if more than the allowable amount is received (in 2010 this is \$25,000 if the member is under 50 years of age and \$50,000 for those over 50). This extra tax on excess contributions is 31.5% bringing the amount of tax on contributions up to the highest marginal rate of 46.5%. A big detriment to putting too much into super.
- At the same time the rules also changed to allow super funds, in limited circumstances to borrow.

### *Strategy*

As you are all aware in the first few years of having an investment property the interest and other expenses are large than the income generated by the property leading to it being negatively geared. This can in turn lead to the super fund actually having a loss for the income tax year which can be carried forward to offset against future income.

What if instead of carrying that loss forward you could use it straight away by offsetting it against an excess contribution? The idea works like this:

Member is allowed to make a contribution of \$25,000 but instead his employer makes a \$70,000 one giving and excess amount of \$45,000?

Rent from Commercials rental Property	\$ 30,000
Less: Rental Property Expenses	(100,000)
Net Rental Property Loss	(70,000)
Employer Contributions from Employer	\$ 70,000
<b>TAXABLE INCOME IN FUND</b>	<b>NIL</b>

But tax is still payable on the amount over \$25,000?

Total Contributions	\$ 70,000
Less: Allowable Contributions Amount	(25,000)
Total Excessive Contributions	45,000
<b>Tax on excessive contribution @ 31.5%</b>	<b>\$ 14,175</b>

If the member had taken the extra \$45,000 as wages while they were in the highest marginal tax rate then this \$45,000 would have been taxed at a rate of 46.5% or \$20,925. By putting it into the super fund however the tax was only \$14,175. A tax saving of \$6,750.

If you have any questions on how and if this might work for you, please feel free to give me a call and we can talk it over in more detail and giving consideration

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