

June 2010

End of Year Super Strategy & Tips

Government co-contribution

Maximise your entitlement to the government co-contribution by making a non-concessional superannuation contribution prior to the end of the financial year. Eligible personal superannuation contributions are matched dollar for dollar by the Government up to a maximum government co-contribution of \$1,000. For 2009/10 the maximum government co-contribution is payable to individuals on incomes at or below \$31,920, and reduces by 3.333 cents or each dollar by which the individual's total income for the year exceeds \$31,920, cutting out completely once an individual's total income reaches or exceeds \$61,920.

The 'total income' calculation used to determine eligibility for the co-contribution is reduced by amounts for which a taxpayer is entitled to a deduction as a result of carrying on a business. Therefore, if you are carrying on a business and your assessable income exceeds \$61,920, you may still be eligible for a government co-contribution if your business deductions result in your total income for co-contribution purposes being below \$61,920.

Although a taxpayer's total income is reduced by business deductions, this does not include deductions for personal superannuation contributions. In order to be eligible for the government co-contribution, 10% or more of the taxpayer's total income for the financial year must be attributable to either or both of:

- employment-related activities, and
- the carrying on of a business

Tax offset for Spouse contributions

Taxpayers are entitled to a maximum \$540 tax offset for superannuation contributions made on behalf of a low income or non-working spouse. The maximum rebate of \$540 is based on 18% of a maximum \$3,000 non-concessional contribution. The maximum rebate is reduced by \$1 for each \$1 that the total of the spouse's assessable income, reportable fringe benefits and reportable employer superannuation contributions exceeds \$10,800, cutting out completely once this figure reaches \$13,800.



Forsyths Knowledge

Tax deductible Super contributions

Personal contributions made by individuals who satisfy the 10% rule are eligible to be claimed as a tax deduction. The maximum deduction that can be claimed is \$25,000 if the taxpayer is under 50 or \$50,000 if the taxpayer is 50 or older. The 10% rule requires that less than 10% of the total of the individual's assessable income, reportable fringe benefits and reportable employer superannuation contributions for the financial year comes from employment - related activities.

Taxpayers who derive no income from employment related activities may also be entitled to claim a deduction for personal superannuation contributions. Taxpayers who turn 50 any time during the financial year are entitled to access the higher \$50,000 concessional contribution limit irrespective of when the contribution is made during the financial year.

Extreme care needs to be exercised to ensure the taxpayer satisfies the 10% rule and that the deduction being claimed will not exceed the taxpayer's expected taxable income for the financial year. Unless you plan to rollover your super interest to another fund or convert your super interest (in whole or in part) to an income stream, defer the lodgement of your notice of intention to claim a tax deduction until after your assessable income for the financial year is known.

Should the taxpayer claim a deduction for a contribution which is subsequently disallowed by the Tax Commissioner, the contribution will be re-classified as a non-concessional contribution and counted against the taxpayer's non-concessional contribution cap in the financial year in which it is made. Therefore, even the smallest miscalculation of the 10% rule or the taxpayer's taxable income could result in a substantial excess contributions tax issue if the taxpayer has also made maximum non-concessional contributions in that year. Your notice of intention to claim a tax deduction will be invalid if you lodge this notice with your fund after your super interest has been transferred to another fund or your super interest has been transferred (either in full or part) to a super income stream.

Maximise after tax Super contributions

Make a non-concessional contribution up to the allowable cap before the end of the financial year. If you contribute less than \$150,000 during the financial year, the unused cap amount is not carried over to future financial years. Therefore, where possible, make full use of your annual cap entitlement and your ability to maximise your retirement savings. If you turned 65 during the financial year you are still entitled to bring forward two years worth of contributions and make a contribution of up to \$450,000 in this financial year (assuming that you have not already triggered the 'bring forward' rule in the two preceding financial years or you have made any other non-concessional contributions in this financial year).

Forsyths Knowledge

You will need to satisfy the work test in this financial year if you are over age 65 when you make the contribution. Any type of contribution made by you during this financial year or during the two preceding financial years may impact on the contributions you can now make in this financial year, extreme care needs to be taken to ensure all types of contributions made by you, or on your behalf during these periods are properly considered.

For example, your excess concessional contributions are counted against your non-concessional contribution cap and any excess CGT small business payments which you may have contributed to your super fund are also counted against your non-concessional contribution cap. Likewise, any excess employer termination payments which you may have rolled over to your super fund under the transitional rules are counted against your concessional contribution cap which may then lead to excessive concessional contributions and amounts being counted against your non-concessional contribution cap.

If you are planning to make use of the three year 'bring forward' rule in this financial year and you have lodged a notice of intention to claim a deduction with your fund for contributions made during either of the two preceding financial years, the validity of these notices also needs to be carefully considered. If either of these notices are disallowed by the ATO, and during either of those financial years you made non-concessional contributions totalling \$150,000, the disallowed notices will result in you inadvertently triggering the 3 year 'bring forward' rule in a prior year. In the past this has resulted in cases of substantial excess contributions tax being imposed on individuals because the commencement of the 3 year 'bring forward' period is backdated to the financial year in which the notice was disallowed. When calculating the value of contributions made year to date, be sure to include the payment of any fund expenses by a fund member which have not been reimbursed by the fund as a contribution.

We hope you find this information valuable. Please contact us with any queries you may have.

Best wishes
The Forsyths Team

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Armidale p: 6773 8400

Coonabarabran p: 6842 0000

Gunnedah p: 6748 5000

Tamworth p: 6763 0100

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