Personal deductible contributions

Claim a tax deduction for your personal contributions to super.

June 2018

Personal deductible contributions

By making personal contributions to your super, you may be able to claim a tax deduction to reduce your tax liability.

What's in it for me?

- Pay less tax by reducing your taxable income, while growing your retirement savings quicker.
- Retirees, self-employed persons and homemakers can build wealth more effectively.
- Since 1 July 2017, this strategy is more widely available, as employees may be eligible to make personal deductible contributions.

Who can this strategy work for?

This strategy is most suitable if you:

- have a marginal tax rate of at least 19%
- want to reduce tax
- are eligible to contribute.

Personal deductible contributions count as income for benefits and concessions such as:

- selected tax offsets
- Family Tax Benefit (FTB) Part A & B
- Medicare levy surcharge (income threshold)
- Commonwealth Seniors Health Card

How does it work?

A personal deductible contribution allows you to reduce your taxable income. The amount of the contribution claimed as a tax deduction is generally taxed at 15%[1] (contributions tax) in the fund, instead of your marginal tax rate.

Typically, people running a business as a sole trader or in partnership, and some retired or unemployed people may make personal deductible contributions. However, since 1 July 2017 employees may also make personal deductible contributions.

Contributions you claim as a tax deduction count as concessional contributions.

Concessional contributions

Concessional contributions are generally subject to 15%[1] contributions tax in your super fund up to set limits. They generally include employer contributions such as Super Guarantee, salary sacrifice contributions and personal contributions for which a tax deduction has been allowed.

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Case study 1 – Meet Helen

Helen is a 43 year old self-employed florist earning $45,000 p.a. and is also employed part-time as a teacher earning $30,000 of employment income. Her employer makes Superannuation Guarantee contributions of $2,850 p.a. which count towards the concessional contributions cap ($25,000 for the 2017/18 financial year). Her marginal tax rate is 34.5% (including Medicare levy).

During Helen's annual review, her financial adviser recommends she should contribute more to super as she nears retirement. She advises Helen to make a $20,000 personal deductible contribution to super to increase her retirement savings and to reduce her taxable income. Helen will be required to submit a valid 'notice of intent to claim a tax deduction' form.

The personal deductible contribution is subject to 15% contributions tax in the super fund, instead of her marginal tax rate of 34.5%. This results in a net tax saving of $3,900 (19.5% of $20,000). Helen also benefits by having her retirement savings grow in a low tax environment.

Concessional contribution caps

An annual cap on concessional contributions applies each financial year. The concessional contributions cap is $25,000 for the 2017/18 financial year, regardless of age.

If you exceed your concessional contributions cap the excess contributions are generally included in your assessable income. You will receive a non-refundable tax offset equal to 15% of the excess contributions. An interest charge also applies to account for the deferral of tax.[2]

Note: From 1 July 2018, if your total superannuation balance is less than $500,000, you may be able to carry forward any unused concessional contribution caps for up to 5 years. The first year you can access unused concessional contribution cap space is the 2019/20 financial year. The carry forward of unused concessional contribution caps, may allow you to make larger personal deductible contributions in the 2019/20 or later financial years.

Notes:

1. An additional 15% tax may apply to certain concessional contributions if your income plus concessional contributions exceed $250,000 in the 2017/18 financial year.

2. Individuals can elect to withdraw up to 85% of their excess concessional contributions from their superannuation. Depending upon the amount effectively withdrawn, excess concessional contributions left in the super fund may also count towards the non-concessional contribution cap.

Case study 1 – Meet David

David is a 61 year old self-funded retiree who has just sold an investment property for $250,000 and made a $25,000 assessable capital gain. For the purposes of this case study his marginal tax rate is 34.5% (including Medicare levy).

David decides to make a personal deductible contribution of $25,000 into super to offset his Capital Gains Tax (CGT) liability as well as growing his super. Using this strategy, David has effectively reduced his CGT liability by $4,875.

	Before strategy	After strategy
Assessable capital gain	$25,000	$25,000
Less deduction for super contribution	$0	$25,000
Taxable capital gain	$25,000	$0
Less CGT payable at 34.5%	$8,625	$0
Less 15% super contributions tax	n/a	$3,750
Net amount	**$16,375**	**$21,250**

Tips and tricks

- After the end of the financial year, you will receive a letter from your super fund asking if you intend to claim a tax deduction for your personal contributions. Consult your financial adviser or tax consultant before making a decision.
- However if you start a pension, withdraw or rollover your money, don't wait until the end of the financial year. You will need to provide your super fund with a Notice of Intent to claim a tax deduction before you start a pension, and generally before you withdraw or rollover your money.
- Ensure you have notified your super fund and provided the form that you intend to claim a tax deduction for personal contributions. You should receive acknowledgement of receipt of that notice from the fund before you complete your tax return, start a pension or withdraw or rollover money from the fund to which you made your personal contribution.

Need more information?

If you would like to discuss this further or how it might impact you, call your financial adviser.

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