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Case Study

The Non Concessional Contributions Cap

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The Non Concessional Contributions Cap

The non-concessional contributions cap was introduced to place a limit on the amount of after-tax contributions an individual can make into superannuation each Financial Year without incurring excess contributions tax. However, the non-concessional contributions cap still provides some flexibility, including for some individuals the opportunity to maximise their contributions to superannuation through the use of the bring-forward provisions.

Individuals under the age of 65 on 1 July of the relevant Financial Year have the opportunity to make a non-concessional contribution of up to \$540,000, averaged over three Financial Years. Those age 65 but less than 75 can make non-concessional contributions of up to \$180,000 each Financial Year, subject to satisfying the work test, i.e. where the member has worked 40 hours in 30 consecutive days at any time during the relevant Financial Year.

The three-year averaging provisions for non-concessional contributions allow individuals to bring forward two years of future non-concessional contributions.

Individuals aged 63 or 64 can take advantage of the \$540,000 non-concessional contributions cap and are not required to meet the work test in relation to years two and three.

Where a bring-forward period has been triggered, the two future years' entitlements are not indexed. Non-concessional contributions in excess of the cap are subject to 46.5% tax.

Case Study 1

Joanne, age 63, has \$720,000 net proceeds from the sale of an investment property.

She intends to use these funds to make a non-concessional contribution into superannuation prior to retiring when she turns 65.

Under option 1, Joanne contributes \$540,000 in the 2014/15 Financial Year. She exceeds the annual non-concessional cap of \$180,000 in the 2014/15 Financial Year and the bring-forward provisions are triggered, which means that the \$540,000 contribution is averaged over 2014/15, 2015/16 and 2016/17.

She is unable to contribute the remaining \$180,000 in 2017/18 as she is over 65 years of age and does not satisfy the work test. Therefore, she has not achieved her aim of contributing the entire \$720,000 into superannuation.

However we suggest that she considers an alternative strategy. Under option 2, Joanne contributes \$180,000 in 2014/15 and does not exceed the annual non-concessional cap, i.e. she does not trigger a bring-forward period. Joanne contributes the remaining \$540,000 in 2015/16.

She exceeds the annual non-concessional cap of \$180,000 in the 2015/16 Financial Year and the bring-forward provisions are triggered, which means that the \$540,000 contribution is averaged over 2015/16, 2016/17 and 2017/18. She is not required to meet the work test as she is age 64 at the time of making the \$540,000 contribution. Joanne has achieved her aim of contributing the entire \$720,000 into superannuation under option 2.

	Option 1	Option 2
2014/15 (Age 63)	\$ 540,000.00	\$ 180,000.00
2015/16 (Age 64)	\$ -	\$ 540,000.00
2016/17 (Age 65)	\$ -	\$ -
2017/18 (Age 66)	Not Eligible to contribute	\$ -
TOTAL:	\$ 540,000.00	\$ 720,000.00

Bring-forward rules for individuals approaching age 65

To be eligible for the bring-forward provisions an individual needs to be less than 65 years old at 1 July of the relevant Financial Year and not already in a bring-forward period.

However, individuals aged 63 and 64 who commence a bring-forward period need to be aware of their remaining contribution cap each year while in a bring-forward period, especially once they reach age 65.

Please note once an individual is aged 65 or over at 1 July of the relevant Financial Year, a fund cannot accept a non-concessional contribution (in a single transaction) that is greater than the non-concessional contribution cap (\$180,000).

Case Study 2

Brett turned 65 on 5 October 2014 and was considering his options leading into retirement. He decided that he would continue working full time for the next year or two to maximise his superannuation contributions so that he can commence a larger account-based income stream upon his retirement.

In November 2014, Brett received an inheritance of \$200,000 and wanted to contribute this amount into superannuation. As Brett was age 64 at 1 July 2014 he was eligible to use the bring-forward provisions. However, notwithstanding that Brett was able to use the bring-forward provisions, as he had already turned 65 he had to satisfy the work test prior to making the contribution.

Provided he was not already in a bring-forward period and had not made any non-concessional contributions for the 2014/15 Financial Year, he would be eligible to contribute up to \$540,000 under the bring-forward provisions.

If Brett contributed \$200,000 as a non-concessional contribution in the 2014/15 Financial Year, his remaining non-concessional contributions cap for the following two Financial Years will be \$340,000, i.e. \$540,000 less \$200,000.

In the 2015/16 Financial Year, Brett decides to sell one of his investment properties and receives net proceeds of \$500,000. Brett is eligible to contribute up to \$340,000 of non-concessional contributions as this is his remaining non-concessional contributions cap for the 2015/16 and the 2016/17 Financial Years, under the bring-forward provisions, provided he satisfies the work test.

However, as a superannuation fund cannot accept a single fund-capped contribution that is greater than the relevant non-concessional contributions cap (\$180,000 for 65 year olds), Brett will be required to split the \$340,000 into two or more contributions. For example, this may require a contribution of \$180,000 and then a separate contribution of \$160,000. Making two separate contributions alleviates any issues surrounding the fund-capped contribution limits.

	Contributions	Work Test
2014/15 (Age 64)	\$200,000	Applies in respect of contributions made on or after 65th birthday
2015/16 (Age 65)	\$180,000	\$ 540,000.00
2016/17 (Age 66)	\$160,000	Applies
2017/18 (Age 67)	Limited to \$180,000 per year	Applies

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