# SMSF SMART

## Contributing to Superannuation

Edition #4

190 Through Road, Camberwell VIC 3124 T: (03) 9809 1221 F: (03) 9809 2055 enquiry@gfmwealth.com.au

www.gfmwealth.com.au

Australian Financial Services Licence No. 229401 ABN 69 006 679 394

## Contributing to Superannuation

Edition #4

In our first three editions of SMSF Smart, we provided an introduction to SMSFs, worked through the obligations of being an SMSF Trustee and looked at the Trust Deed.

In this edition of SMSF Smart, we look at Contributing to Superannuation.

As always, we encourage you to ask us any questions if you need further information or clarification.

## Introduction

Generally, a contribution is money paid into your SMSF.

However, a contribution to an SMSF is anything of value that increases the capital of an SMSF provided by a person whose purpose is to benefit one or more particular members of the SMSF.

Depending on the circumstances in which the contributions are made to the SMSF:

- The contributor may be eligible for an income tax deduction or a tax offset; or
- The SMSF trustee may receive the Government Co-Contribution or Low Income Superannuation Contributions on the contributing member's behalf.

There are four types of contributions:

- Personal contribution – made by the member
    - Personal non-concessional, personal concessional contributions
- Other contributions - made by someone other than the member or employer
    - Spouse contribution, government co-contribution
- Voluntary employer contribution
    - Salary sacrifice, other employer contributions above the Super Guarantee
- Mandated employer contribution
    - Super Guarantee, or contribution under an industrial award

For tax purposes, contributions to superannuation are divided into two types: concessional and non-concessional contributions.

An SMSF Trustee must not accept a contribution from a member unless they have quoted their TFN, or the member quotes their TFN to the trustee within 30 days of the contribution being received.

SMSF Trustees can only accept contributions for members when the conditions specified by the law and the trust deed have been met.

## Eligibility to Contribute to Super

The following table summarises the rules for when a person is allowed to contribute to super:

| Age at time of contribution | Personal contribution - made by the member | Other contributions - made by someone other than member or employer | Voluntary employer contribution | Mandated employer contribution |
|---|---|---|---|---|
| **Under 65** | Yes | Yes | Yes | Yes |
| **65 to 69** | Yes - Work test required | Yes - Work test required | Yes - Work test required | Yes |
| **70 to 74** | Yes - Work test required | No | Yes - Work test required | Yes |
| **75 and over*** | No | No | No | Yes |

*You cannot make non-concessional or voluntary concessional contributions, regardless of whether you satisfy the work test, once you reach age 75. However, if you turn 75 during the Financial Year, you can make such a contribution up to 28 days after the end of the month in which you turn 75 if the work test has been met.

## The Work Test

The work test requires that an individual be gainfully employed for at least 40 hours in not more than 30 consecutive days in the Financial Year of the contribution before the contribution is made.

'Gainfully employed' means to be employed or self-employed for gain or reward in any business, trade, profession, vocation, calling, occupation or employment.

The concept of gain or reward is the receipt of remuneration for personal services. Unpaid work does not meet the definition of gainful employment. It also does not include the passive receipt of income such as dividends, rent or trust distributions. Therefore, the gainful employment test would not be met if a member only receives passive income or undertakes volunteer work.

If you contribute without meeting the work test, the amount must be returned to you within 30 days. Any amounts that are not returned within this time will mean the SMSF has breached contribution rules resulting in compliance issues that will be reported in your SMSF Annual Audit.

# Total Super Balance

From 1 July 2017, the concept of 'Total Super Balance' came into effect. This measures the value of your super interests on 30 June each year. Your Total Super Balance is used to determine eligibility for some super measures.

Your Total Super Balance is generally the sum of:

- Accumulation phase values
- Retirement phase values
- Rollover superannuation benefits

# Rollovers

A rollover is the transfer of some or all of a member's superannuation benefit from one complying superannuation fund to another, with the member's consent.

Rollovers are not considered to be contributions and therefore are not taxed or subject to any contribution caps.

# Concessional Contributions

Concessional contributions are those where a tax deduction has been claimed, either by an employer or by an individual.

## *Types of Concessional contributions*

### Employer contributions

Employer contributions include the compulsory super guarantee (SG), award contributions and voluntary employer contributions.

### Salary sacrifice contributions

Salary sacrifice contributions are those made by your employer based on an agreement with you in the form of a salary sacrifice arrangement. Salary sacrifice contributions are those made by your employer to your super fund, instead of making an equivalent salary payment to you.

### Where a tax deduction is claimed for personal contributions

These voluntary personal contributions are made by you, for which you claim a tax deduction.

You will need to complete the relevant form from the ATO ("Notice of intent to claim or vary a deduction for personal super contributions") and submit to your super fund if you intend to claim a tax deduction for a personal contribution. The trustee must acknowledge this notice.

Also, a notice of intent to claim the deduction must be given, where relevant, before:

- Commencing an income stream with either all or part of the contribution
- Withdrawing or rolling over benefits (which include the contribution)
- The member gives the trustee a splitting contributions application.
- Alternatively, in any other case, the earlier of:
    - When the member lodges their tax return; or
    - The end of the Financial Year following the year in which the contribution is made.

The concessional contribution threshold is $25,000 per annum, regardless of age. The limit is indexed to average weekly ordinary time earnings (AWOTE) in $2,500 increments.

Tax on contributions up to the threshold is 15%, commonly referred to as contributions tax.

### *Carry forward of concessional contributions*

From 1 July 2018 members with a Total Super Balance of less than $500,000 will be able to access their unused concessional contributions cap space to make additional concessional contributions, on a rolling basis for five years. Amounts carried forward that have not been used after five years will expire. Only amounts unused accruing from 1 July 2018 can be carried forward.

From 1 July 2019, members will be able to use their accrued unused concessional contributions cap space to make catch-up concessional contributions.

### *Excess concessional contributions*

Excess concessional contributions are effectively taxed at the individual's marginal tax rate, plus an interest charge calculated by the ATO.

Up to 85% of excess concessional contributions can be withdrawn, and unless withdrawn, concessional contributions which exceed the threshold also count towards the non-concessional limit.

### *Division 293*

Commonly referred to as Division 293 tax, an additional tax of 15% is imposed on concessional contributions for those individuals earning more than $250,000 in the Financial Year.

If you need to pay Division 293 tax, the ATO will issue you with a notice of assessment stating the amount of tax payable for the Financial Year and provide you with a release authority to enable the amount to be paid from your super account.

## Non-concessional Contributions

Personal contributions made from after-tax income, on which no tax deduction is claimed are known as non-concessional contributions. Some other amounts are classed as non-concessional contributions.

No contributions tax is payable on non-concessional contributions.

Non-concessional contribution threshold and tax rates

Unless the bring forward rule applies, and your Total Super Balance wasn't more than $1.6 million on 30 June of the previous Financial Year, the non-concessional contribution threshold is $100,000 per annum.

The non-concessional threshold is four times the concessional contribution cap.

### *Excess non-concessional contributions*

Where contributions have exceeded the non-concessional cap, an individual can generally elect to withdraw this excess (plus 85% associated earnings). The associated earnings are included in the taxable income of the individual. The individual is eligible for a (non-refundable) tax offset equal to 15% of the associated earnings.

### *Bring-forward rule*

#### Under age 65

If a member is under 65, they can make non-concessional contributions of up to three times the annual cap in a single year by "bringing forward" two years' worth of their cap. From 1 July 2017, this means that you can contribute up to $100,000 per year or up to a maximum of $300,000 averaged over a three year fixed period.

The "bring forward" rule is triggered once contributions exceed the cap in any given year and that year's cap amount will apply for the following two years.

From 1 July 2017, the non-concessional contribution cap that a member can bring forward will depend on their Total Super Balance at 30 June of the previous year.

Where your Total Super Balance is:

- Less than $1.4 million, the maximum non-concessional contributions is $300,000
- Between $1.4 million and $1.5 million, the maximum non-concessional contribution is $200,000
- Between $1.5 million and $1.6 million, bring forward is not available as total non-concessional contributions are limited to $100,000.

The bring-forward rule resets at the end of the three years, allowing you to make further non-concessional contributions at the end of the period.

#### Turning age 65

The bring-forward provisions are not available to those above 65.

However, if you are age 64 on 1 July in a particular Financial Year, you can implement the bring forward provisions if a non-concessional contribution above $100,000 is made.

## In-specie Contributions

In some situations, a limited range of investments may be transferred to an SMSF and for the value of the investment to be treated as a contribution; this is called an in-specie contribution.

Examples of in-specie contributions include:

- Public company shares listed on a stock exchange
- Property that is used exclusively for business, commercial or principally farming purposes. This is also called 'business real property'.

Residential property cannot be transferred into an SMSF.

### *Considerations for in specie transfers*

While there can be significant tax savings by transferring assets from your name to your SMSF, there are several issues to consider:

- Transferring assets to super "locks" the asset into the super system due to preservation so you will be unable to access it until you meet a condition of release
- Contribution thresholds need to be observed
- In-specie contributions may be subject to capital gains tax and stamp duty

## Co-contributions

Super co-contributions help eligible people boost their retirement savings.

If you're a low or middle-income earner and make a non-concessional contribution, the government also contributes (called a co-contribution) up to a maximum amount of $500.

The amount of government co-contribution you receive depends on your income and how much you contribute.

The Government co-contribution does not count towards the concessional or non-concessional thresholds.

### *Eligibility*

To be eligible for a government super co-contribution you must:

- Have made one or more eligible personal super contributions to your super account during the Financial Year;
- Pass the two income tests (income threshold and 10% eligible income tests);
- Be less than 71 years old at the end of the Financial Year;
- Not hold a temporary visa at any time during the Financial Year (unless you are a New Zealand citizen or it was a prescribed visa);
- Lodge your tax return for the relevant Financial Year;
- Have a Total Super Balance less than the Transfer Balance Cap at the end of 30 June of the previous Financial Year, and
- Not have contributed more than your non-concessional contributions cap

### *How much is the government co-contribution?*

Based on current thresholds, the maximum government co-contribution is $500. This is calculated as $0.50 for every $1 of personal contribution made, in the Financial Year up to $1,000. This is subject to an income test.

The maximum co-contribution of $500 is reduced by 3.333 cents for every dollar that total income exceeds the lower income threshold.

# Spouse Contributions Offset

A spouse contribution involves contributing to a low income or non-working spouse's super to build their retirement savings.

### *Eligibility*

You can contribute on behalf of your spouse and claim a tax offset (commonly referred to as a 'rebate'), if:

- The sum of your spouse's assessable income, total reportable fringe benefits amounts and reportable employer super contributions were less than $40,000, and the contributions were not deductible to you.
- Both you and your spouse were Australian residents when the contributions were made.
- When making the contributions you and your spouse were not living separately and apart on a permanent basis.
- Your spouse had not exceeded their non-concessional contributions cap for the relevant year or had a Total Super Balance equal to or exceeding the Transfer Balance Cap immediately before the start of the Financial Year in which the contribution was made (the general Transfer Balance Cap for 2017–18 is $1.6 million).

There is no age limit or work test for the person making the contributions.  However, if the receiving spouse is aged 70 or over, contributions can't be accepted.

### *How much is the spouse contribution offset?*

An 18% income tax offset for contributions up to $3,000 is available, with the maximum tax offset being $540.

The full offset is available where the assessable income and reportable fringe benefits of the receiving spouse is below $37,000.

The offset phases out as the spouse's assessable income and reportable fringe benefits increases to $40,000, above which no offset is available.

### *Treatment of spouse contributions*

Spouse contributions are fully preserved and form part of the tax-free component.  They are treated as non-concessional contributions and are not included in the SMSF's assessable income.

# Spouse Contribution Splitting

Contribution splitting refers to the splitting of concessional contributions between you and your spouse, enabling you to boost your spouse's super savings with some of your own.

Contributions can be split with your spouse after the end of the Financial Year and at any time up to the end of the following Financial Year.

For a member to split a contribution, an application must be made to the member's fund.  Before the end of the Financial Year, this ATO form should be sent to, received, and acknowledged by the member's super fund.

Up to 85% of concessional contributions are splittable, and there is no age requirement for the originating spouse.

### *Eligibility*

The requirements for eligible contributions splitting are:

- The receiving spouse must be:
    - Less than their preservation age; or
    - Between their preservation age and 64 and not be retired
- The trust deed of the super fund must allow the splitting of contributions

### *Treatment of contribution splitting*

Contribution splitting counts only towards the concessional cap of the originating spouse. When it is split to the receiving spouse, it does not count towards any cap.

The amount is fully preserved for the receiving spouse.

## In Summary:

Getting the right advice and expert guidance is crucial with SMSFs. While there is greater control with an SMSF, there is also more responsibility. The ATO encourages individuals to engage professionals to help set up and run an SMSF, and this is where GFM Wealth Advisory can help.