MANAGING THE CONTRIBUTION CAPS

Making the most of the opportunities in super

- ✔ **Are you looking to grow your retirement savings?**
- ✔ **Do you know what the different types of super contributions are?**
- ✔ **Do you want to know how much you can contribute to super tax-effectively?**

How does it work?

There are many important tax benefits associated with investing in super. But to make the most of these benefits you need to understand the different types of super contributions, and be aware of the limits that exist on how much you can contribute to super tax-effectively each financial year.

The two types of contributions that qualify under the contribution caps are:

- Concessional contributions – are generally made to a super fund by your employer or if you're self-employed, those made by you for which you claim a tax deduction. These are included in the assessable income of the super fund (which is taxed at 15%) because a tax deduction has already been claimed for them by you or your employer. Examples of concessional contributions include super guarantee (SG) contributions, salary sacrifice amounts, and any amount allowed as a personal deduction in your income tax return.
- Non-concessional contributions – are not included in the super fund's assessable income because it is a personal super contribution which you've made from your after-tax income.

The following table shows the current contribution caps that apply to both concessional and non-concessional contributions, depending on your age. It also includes details of the extra tax that would apply to any amounts that exceed the cap.

	Concessional cap – under age 50	Concessional cap – age 50 or over (transitional)	Non-concessional cap
2011/12	$25,000*	$50,000**	$150,000 p.a. (or $450,000 where you trigger the two year bring forward rule)
Tax on amounts over the cap	31.5% (in addition to the 15% paid by the super fund)	31.5% (in addition to the 15% paid by the super fund)	46.5%
Important information	Any concessional contributions in excess of the cap will also count towards your non-concessional cap	Any concessional contributions in excess of the cap will also count towards your non-concessional cap	If you are under age 65 at any time during the financial year, you may be able to bring forward the next two years' worth of contributions. This effectively allows you to contribute up to three times the cap at once, or at any time during the next three years.

* The $25,000 concessional cap will be indexed annually to average weekly ordinary times earnings (AWOTE) and rounded down to the nearest multiple of $5,000. The government has proposed to freeze indexation until 2014/2015, however this change has not yet been legislated.

** The transitional concessional contribution cap of $50,000 is legislated to cease on 30 June 2012. The government has proposed retaining the $50,000 cap for those over 50 but limiting it to those with superannuation balances of less than $500,000. This change has not been legislated at this time.

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Right Strategy. Right Time.

What does it mean for me?

Planning for contribution caps is an important part of any superannuation strategy. Getting it right can help you enjoy a more comfortable retirement, but the penalties for getting it wrong can be severe – which is why it's important to receive professional financial advice in this area.

Generally speaking, if you make any **excess concessional contributions**, you will be subject to a penalty tax of 31.5%, on top of the 15% paid by the super fund. That's the equivalent of paying the highest marginal tax rate (46.5% including the Medicare levy) on these amounts. Furthermore, any excess concessional contributions will be counted towards your non-concessional cap.

Any **excess non-concessional contributions** you make will be taxed at 46.5%. However, if you are under age 65 at the start of the financial year, you have the ability to utilise the 'three year averaging rule' and increase your non-concessional cap from $150,000 to $450,000 – bearing in mind that this will limit your available non-concessional cap for the following two years.

Putting it into practice

Example 1 – Age 50 and over

Chris is currently age 49, but will turn 50 on 29 June 2012. To date his only concessional contributions for the current financial year have been employer SG contributions, which will amount to $12,000 for the 12 months.

Chris is looking to enter a salary sacrifice agreement for the balance of this financial year to increase the level of concessional contributions made to his super fund, but he doesn't want to exceed his concessional contribution cap.

As Chris will turn 50 before the end of this financial year, his concessional contribution cap will be $50,000 in 2011/12. That means he has the ability to make $38,000 (i.e. $50,000 - $12,000) in salary sacrifice contributions before he reaches his cap.

Example 2 – Under age 50

Linda is 42 and employed on an annual salary of $200,000. Her employer's standard practice is to contribute 12% of base salary to super for all employees, which for Linda means an annual super contribution of $24,000.

Linda's employer is only required to contribute 9% on the first $175,280 ($15,775) to super to satisfy its SG. However, the entire $24,000 counts towards Linda's concessional contribution limit – meaning she only has $1,000 of her $25,000 concessional contributions cap remaining before penalties may be imposed.

To find out how you can make the most of your contribution caps, please talk to your financial adviser today.

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