TRAC

The Retirement Advice Centre

The “Your Guide To” Series

Personal Deductible Contributions

David Reed

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Australian Financial Services Licensee Number 244252. Unit 7, 50 Borthwick Avenue Murarrie Qld 4172

Your Guide to Personal Deductible Contributions

Making a personal contribution into super and claiming a tax deduction for the contribution increases your retirement savings and reduces your income tax payable.

What are the benefits?

- Your retirement savings can accumulate tax-effectively because contributions to super are generally taxed at 15% instead of at your marginal tax rate.
- You will be eligible to claim a tax deduction for the amount of the contribution which will reduce your taxable income and the amount of income tax you pay.
- Investing in super can provide a higher after-tax rate of return compared to investing outside of super because earnings inside super are taxed at a maximum rate of just 15%, whereas earnings from non-super investments are generally taxed at your marginal tax rate.

How do personal deductible contributions work?

To be eligible to contribute to super, you must be either under age 65, or between 65 and 75 and have worked at least 40 hours in any 30 consecutive days in the financial year in which the contribution is made.

If you have little or no employment related income in a financial year, you may be eligible to claim a tax deduction for your super contributions. Those who are usually eligible include retirees, self-employed and those that meet the 10% test.

The 10% test only applies if you have some employment related income in the financial year. The test requires your assessable income from employment to be less than 10% of your total assessable income. The formula to determine this is as follows.

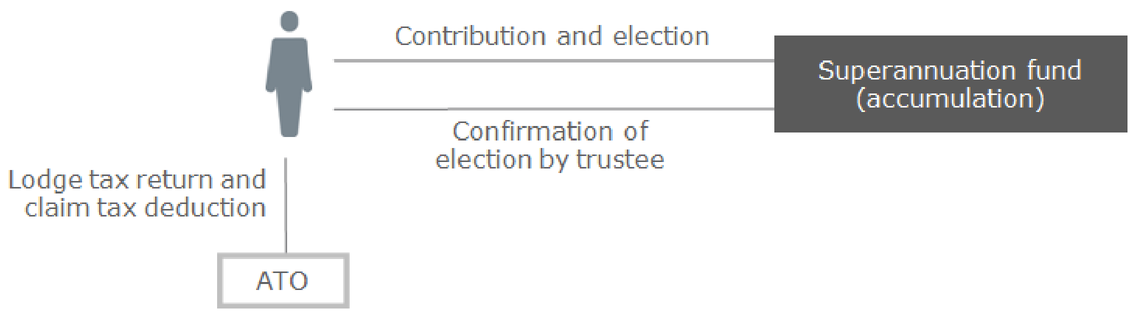
$$\frac{\text{Employment income*}}{\text{Total income**}} = \text{Less than 10\%}$$

** Employment income is the total of assessable income, reportable fringe benefits and reportable super contributions from the employer*
*** Total income is the total of assessable income, reportable fringe benefits and reportable super contributions.*

To claim the tax deduction, you need to lodge a notice of intent to claim a deduction form with the trustee of the fund by the earlier of:

- the day you lodge your tax return for the financial year
- the end of the financial year after the year in which the contribution was made
- commencing an income stream from the fund
- withdrawing or rolling money out of the fund
- lodging an application to split contributions to a spouse.

The fund will send you an acknowledgement notice confirming the deduction amount which then allows you to include the deduction in your tax return. The deduction reduces your taxable income which in turn reduces your income tax payable.



Personal deductible contributions are taxed at 15% in the super fund.

Varying a notice of deductibility

Once lodged, you are not able to revoke or withdraw a notice of deductibility; however you can vary a notice to reduce the amount of the deduction being claimed. The amount of the deduction claimed may be reduced to nil if required.

There is no time limit for requesting a variation if the ATO has disallowed the deduction (for example, if the 10% test has been failed). In any other circumstance, a request for variation must be made by the earlier of the day you lodge your tax return for the relevant year or the end of the following financial year.

In the event that you wish to increase the amount of the deduction being claimed, you are required to lodge a separate notice of intent to claim a deduction form with the super fund.

Contribution caps

Contribution caps apply to superannuation contributions. Personal deductible contributions count towards your concessional contributions cap. The caps for the 2015/16 financial year are as follows:

Age at 30 June 2016	Concessional contributions cap
Under 49	$30,000
49 or older	$35,000

If you exceed your concessional contributions cap, excess contributions will be taxed at your marginal tax rate (with a 15% tax offset) plus an interest penalty will apply. You will be able to elect to have up to 85% of excess contributions refunded from super – any amounts not refunded will count towards your non-concessional contributions cap.

Other things you should know

- Concessional contributions to super are generally subject to 15% tax in the super fund. However if you earn more than $300,000 per annum, an additional 15% tax may apply.
- A deduction can only reduce your taxable income to nil. It cannot add to or create an income loss.
- If you are over age 75, deductions can only be claimed for contributions made before the 28th day of the month following the month in which you turned age 75.
- Personal deductible contributions are a reportable super contribution. This means the contribution is not included in your assessable income, but is included on your tax return for the purpose of determining your eligibility to certain benefits, concessions and obligations.
- You should confirm your eligibility for the deduction with your accountant as well as the amount of deduction that is appropriate for your overall tax situation.
- All contributions to super are preserved until you meet a condition of release.