Changes to concessional contributions

November 2016

Concessional contributions are those contributions taxed upon entry into superannuation. These include the superannuation guarantee, salary sacrifice and contributions where you claim a tax deduction.

What are the changes?

- Reduction in the concessional contribution cap to $25,000 regardless of age
- Carried forward concessional cap for account balances below $500,000
- All individuals under age 65 (and all those under age 75 who pass the work test) will be eligible to claim a tax deduction for personal contributions made to super
- Reduction in income threshold to $250,000 where additional super contribution tax applies
- Refund of contribution tax for people earning less than $37,000

Reduction in concessional contribution cap

Currently concessional contribution caps are determined by age. For those who are aged 50 and above a cap of $35,000 pa currently applies. The cap is only $30,000 pa for those aged under 50. From 1 July 2017, the concessional contribution cap will be reduced to $25,000 for everyone, regardless of your age. Opportunities exist to maximise contributions towards your existing cap before it is reduced from 1 July 2017.

Carried forward concessional cap for account balances below $500,000.

Currently a per year concessional contribution cap applies. If the cap is not utilised, it's forfeited. From 1 July 2018, those who have super account balances less than $500,000 will have the ability to carry forward unused cap amounts for a period of 5 years. This allows flexibility for those who have had interrupted work patterns or those who experience uneven income and have not had consistent contributions or limited contributions to super.

CASE STUDY

Emily is 40 years old has two young children. She has had broken work patterns over the last 2 years as she has taken time out of the workforce to raise her children. She has accumulated $80,000 in super and wants to return to work in July 2018 full time earning $65,000 per year. Emily and her husband Matt decide that they will spend 2017/18 and 2018/19 paying off as much of their mortgage as possible. As Emily will only have SG contributions of $6,175 going into her account, she will have the ability to carry forward the remaining $18,825 for 5 years. In the 2019/20 year, she could potentially make concessional contributions of up to $43,825.

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More flexible arrangements for claiming a tax deduction for personal super contributions

Currently, those who derive less than 10% of their income from “eligible employment activities” have the ability to claim tax deductions for personal contributions made to super. From 1 July 2017, all individuals under age 65 (and all those under age 75 who pass the work test) will be eligible to claim a tax deduction for personal contributions made to super.

Reduction in income threshold to $250,000 where additional super contribution tax applies

Currently where an individual has income greater than $300,000, they will pay an additional 15% on their concessional contributions. From 1 July 2017, this income threshold will drop to $250,000. Although this measure will potentially capture more people, the ability to claim a personal tax deduction and the comparable tax rate outside of super continue to make contributing to super attractive.

Introduction of low income super tax offset

From 1 July 2017 those on an adjusted taxable income of less than $37,000 will effectively receive a refund of the tax paid on their concessional contributions up to $500. This measure avoids the situation where a person on adjusted taxable income below $37,000 is paying more tax on their super contributions than on income earned outside of super.

Summary

To ensure you get the right advice for your situation you should consult your financial adviser.

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