Chartered Accountants

SuperGuardian

Superannuation administration made simple!

☐ Administration ☐ Taxation ☐ Compliance

SuperInfo>
Contributions

Accepting contributions in a Self Managed Superannuation Fund (SMSF) is a high risk area for many SMSF Trustees. Understanding how to contribute cash or assets to your SMSF is crucial to ongoing compliance.

What is a contribution?

Technically, a superannuation contribution is 'anything of value that increases the capital of a superannuation fund provided by a person whose purpose is to benefit one or more particular members of the fund or all members in general'.

In simple terms, there are many different ways that members can contribute to their super fund and SMSF trustees should be aware that there are rules around who, how, when and what can both be contributed to super or accepted by the SMSF.

Who can contribute to super?

Under age 65

There are no restrictions on eligibility to contribute to superannuation.

Aged 65–74 inclusive

- To be eligible to contribute to superannuation, the member must have worked at least 40 hours over a consecutive period of no more than 30 days during the financial year (which is referred to as 'the work test'). 'The work test' must be satisfied BEFORE a member makes a contribution to their fund.
- The fund can accept contributions that are mandated employer contributions which are employer contributions paid under an agreement of award.

Aged 75 and over

Individuals over the age of 75 can't personally contribute to superannuation. The only contributions that can be accepted are mandated employer contributions.

How to contribute to super

There are several ways that contributions can be made to superannuation. The most common form of contribution is a transfer of cash to the superannuation fund.

If the fund trust deed allows, members of SMSF's are also able to contribute by way of a transfer of assets into the super fund. This is often referred to as an 'in-specie contribution'.

In-specie contributions are restricted to the transfer of listed equities or business real property and must be completed on a commercial basis and at market value. Consequently, a contribution is recognised within the super fund in lieu of any cash being paid for the asset.

It is important that SMSF Trustees understand that a contribution is also recognised when an amount is paid to a third party for the benefit of a super fund, or if a future obligation of a super fund to pay an amount is forgiven or disregarded by a member.

As shown in Example 1, this occurs when a member pays a super fund expense on behalf of the fund. By personally paying a liability (expense) of the fund, the capital of the fund has increased and as a result the amount is considered to be a contribution.

Case Study

Example 1

Jill has a SMSF of which she is the sole member. During 2014/15 Jill arranged accounting and audit services to ensure the fund met its income tax and regulatory obligations for 2013/14. Jill paid the accounting and audit fees for the fund from her own money. Jill did not reimburse her outlay from the fund.

By satisfying a liability of the fund Jill has indirectly increased the capital of the fund. Jill's purpose in paying the liability of the fund without reimbursement was to increase the benefits she would ultimately receive from the fund. Therefore, Jill made a contribution to the fund when she paid the accounting and audit fees.

Types of contributions

Contributions can be classified as either:

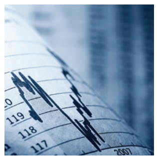
- Concessional
- Non-concessional

The classification of a contribution will determine the taxation treatment within a fund, the member component (taxable or tax free) and within which cap the contribution is included.

Concessional Contributions

Concessional contributions are also known as taxable contributions and are taxed upon entry into the super fund at 15%. They are allocated to the members taxable component within their member balance.

Any amounts received from an employer including the superannuation guarantee and salary sacrifice arrangements are concessional contributions. These payments are tax deductible to the employer.



Eligible members are also able to make personal concessional contributions to the fund. These are usually limited to self employed persons as eligibility requires less than 10% of the member's total assessable income and reportable fringe benefits for the financial year being employment related income.

Changes to legislation in early 2009 resulted in all employer superannuation contributions being included in the calculation of the '10% rule'. As a result, those employees who had previously salary sacrificed a portion of their income to reduce their salary to qualify for deductible personal superannuation contributions under the '10% rule' were unable to do so from 1 July 2009.

Members wishing to claim a tax deduction for contributions to super must provide the fund with a Notice of Intent to Claim a Tax Deduction (s290-170 SIS93). This must be received by the fund either before the member lodges their personal tax return or before the member commences a pension, whichever is earlier.

Concessional Contributions Cap

The following cap applies per member per financial year for concessional contributions. If a member is contributing to more than one superannuation fund, all concessional contributions (employer and personal) are added together and count towards the cap.

Age of Member	Maximum deductible contribution
48 years or under on 30 June 2014	$30,000
49 years or over on 30 June 2014	$35,000*

**If you are aged 65 or over you must satisfy a work test to make contributions.*

The concessional contributions cap is indexed in line with average weekly ordinary time earnings (AWOTE) in increments of $5,000 (rounded down). Concessional contributions in excess of these caps are included in the members assessable income for the corresponding year and taxed at their marginal tax rate.

Non-Concessional Contributions

These are also known as non taxable contributions as they are not taxed upon entry into the super fund. These contributions are allocated to the member's tax free component within their member balance. Non-concessional contributions are made to the fund using after tax funds and are personal contributions. A tax deduction is not able to be claimed for these types of contributions.

Non-concessional Contributions Cap

The non-concessional contributions cap is six times the concessional cap. Currently, the non-concessional contributions cap is $180,000 per member per year and again, if a member is contributing to more than one superannuation fund, the non-concessional contributions are added together and all count towards the cap. Excess non-concessional contributions are taxed at 46.5% in the fund. If you are aged 65 or over you still must meet the work test to be eligible to make non-concessional contributions.

Bring Forward Option

Members aged under 65 are permitted to use the bring forward option. This option allows the member to bring forward two years of non-concessional contributions to enable three times the cap ($540,000) to be contributed over three years. The bring forward option is automatically triggered when a member exceeds the non-concessional cap in a financial year. Members aged 65 and over cannot access this option.

Case Study

Example 2 John is 53 years old and makes a $540,000 non-concessional contribution to his fund in the 2014/15 financial year. Consequently, John is not permitted to make any non-concessional contributions to his fund in the 2015/16 and 2016/17 financial years as he would exceed his cap.

Example 3 Jane is 35 years old and makes a non-concessional contribution of $185,000 to her super fund in the 2014/15 financial year. Jane has triggered the bring forward option. Jane is able to contribute a total of $355,000 during the 2015/16 and 2016/17 financial years without exceeding the non-concessional cap.

Excess Contributions Tax

For the 2013-14 financial year onwards, excess concessional contributions are no longer subject to excess contributions tax. If your contributions exceed the cap, the amount will now be included in your assessable income and taxed at your marginal tax rate, rather than the excess concessional contributions tax rate of 31.5%.

You will also have to pay the excess concessional contributions (ECC) charge on the increase in your tax liability. This charge is applied to recognise that the tax on excess concessional contributions is collected later than normal income tax.

To reduce your tax liability, the tax office will apply a 15% tax offset to account for the contributions tax that has already been paid by your super fund provider.

You may elect to withdraw up to 85% of your excess concessional contributions from your superannuation fund to help pay your income tax assessment when you have excess concessional contributions. Any excess concessional contributions withdrawn from your fund will also no longer count towards your non-concessional contributions cap.

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Case Study

Example 4 During the 2013-14 financial year, Mary (aged 51), salary sacrificed money to super, and her total contributions were $35,000. As Mary's concessional cap was $25,000, Mary's excess concessional contributions total $10,000.

Mary lodges her income tax return, and has taxable income of $70,000. The tax office then includes the $10,000 of excess concessional contributions, which increases Mary's taxable income to $80,000. Mary will be assessed at her effective marginal tax rate of 34% (including 1.5% Medicare levy)

The additional tax payable as a result of the excess concessional contributions is $3,400.

Mary is now entitled to a tax offset equal to 15% of her excess concessional contributions, decreasing her tax liability by $1,500.

With the inclusion of the excess concessional contributions, Mary's tax liability has increased by $1,900 ($3,400 – $1,500), and the ECC charge will be applied to this amount.

Mary doesn't have to do anything, we will notify her by sending the following:

- an income tax notice of assessment
- an excess concessional contributions determination
- an excess concessional contributions fact sheet
- an excess concessional contributions election form

Mary has 21 days to pay her account and decides to take up the option to withdraw some of her excess concessional contributions from one of her super funds to help pay her tax debt.

Mary completes the excess concessional contributions election form and decides to release the full amount of $8,500. Mary sends the election form to the ATO, who then issue a release authority to her nominated fund to have the money released to the ATO. Upon receipt of the money, the ATO offsets the amount against any debts Mary has before refunding her the balance.

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If you have excess concessional contributions reported to us after you have lodged your income tax return, we will amend your income tax return to include the excess concessional contributions. We will send you an income tax notice of amended assessment, excess concessional contributions determination and fact sheet, and excess concessional contributions election form.

Contributions are counted towards the caps in the year in which they are received and credited by your fund. This will usually be some time after a cheque is sent or handed to your super fund, or an online transfer is authorised. Any amount over the non-concessional cap will be taxed at 47%. You're personally liable for this tax, and you must use the release authority we give you to get your super fund to release the amount of the tax from your super.

Other types of contributions

Government co-contribution

The super co-contribution is an Australian Government measure aimed at boosting superannuation savings. If you are a low or middle income earner, you may be able to receive the super co-contribution from the government by making eligible personal superannuation contributions to your fund. As part of this scheme, the government will contribute up to $500 to match eligible non-concessional contributions, of $1,000 or more.

These co-contributions are not taxed in the fund and do not count towards the member's contribution caps. Individuals with income over $49,488 are not eligible for the co-contribution.

Small Business CGT exemptions

Each taxpayer has a lifetime CGT cap amount ($1,355,000 for 2014/15) available to contribute to their super fund to enable them to boost their retirement savings without exceeding normal contribution caps.

The CGT Cap can be used for amounts that are eligible for either the 15 year exemption or the retirement exemption. We recommend speaking with your personal tax accountant for more information about these concessions if selling a business or active asset.

The SuperGuardian Service

SuperGuardian's standard service includes monthly processing of all super fund accounts. For our valued monthly clients, SuperGuardian provides a contribution review service.

At any time throughout the year, our clients can contact us or check their online reports to ensure that their contributions remain within the appropriate caps in order to maximise their contributions, while minimising the risk for excess contributions tax.

We will contact our clients immediately should their contributions exceed the caps and we contact all clients before the end of financial year with a summary of their year to- date contributions. This enables our clients to review what contributions they have made for the period, and allows them to top up any contribution amounts to ensure they maximise their opportunity.

In July, we also provide our clients with a summary of their contributions for the previous financial year and assist with the preparation of Notices of Intent to Claim a Tax Deduction. This means they simply pass it on to their personal accountant to facilitate the preparation of their personal income tax return.

For more information regarding contributions in your fund, please contact your SuperGuardian Client Manager.

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