



## Claim a tax deduction for your personal contributions to super.

### Personal deductible contributions

By making personal contributions to your super, you may be able to claim a tax deduction to reduce your tax liability.

#### What's in it for me?

- Pay less tax by reducing your taxable income, while growing your retirement savings quicker.
- Retirees, employees, self-employed persons and homemakers can build wealth more effectively.

#### Who can this strategy work for?

This strategy is most suitable if you:

- want to reduce tax
- are eligible to contribute.

#### How does it work?

A personal deductible contribution allows you to reduce your taxable income. The amount of the contribution claimed as a tax deduction is generally taxed at 15%<sup>1</sup> (contributions tax) in the fund, instead of your marginal tax rate.

Typically, anyone under age 67 can make personal deductible contributions. A work test generally applies from age 67 and an upper age limit applies. However, employees may also make personal deductible contributions.

Contributions you claim as a tax deduction count as concessional contributions.

### Concessional contributions

Concessional contributions are generally subject to 15%<sup>1</sup> contributions tax in your super fund up to set limits. They generally include employer contributions such as Super Guarantee, salary sacrifice contributions and personal contributions for which a tax deduction has been claimed.



### Concessional contributions caps

An annual cap on concessional contributions applies each financial year. The concessional contributions cap for the 2021/2022 financial year is \$27,500, regardless of age, but if your total superannuation balance last 30 June 2021 was less than \$500,000 your concessional cap may be higher.

If you exceed your concessional contributions cap the excess contributions are generally included in your assessable income and taxed at your marginal rate. You will receive a non-refundable tax offset equal to 15% of the excess contributions.<sup>2</sup>

Personal deductible contributions count as income for benefits and concessions such as:

- Selected tax offsets
- Family Tax Benefit (FTB) Part A & B
- Medicare levy surcharge (income threshold)
- Commonwealth Seniors Health Card

### Case study – meet Helen

Helen is a 43 year old self-employed florist earning \$45,000 p.a. and is also employed part-time as a teacher earning \$30,000 of employment income. Her employer makes Superannuation Guarantee contributions of \$3,000 p.a. which count towards the concessional contributions cap (\$27,500 for the 2021/2022 financial year). Her marginal tax rate is 34.5% (including Medicare levy).

During Helen's annual review, her financial adviser recommends she should contribute more to super as she nears retirement. She advises Helen to make a \$20,000 personal deductible contribution to super to increase her retirement savings and to reduce her taxable income. Helen will be required to submit a valid 'notice of intent to claim a tax deduction' form.

The personal deductible contribution is subject to 15% contributions tax in the super fund, instead of her marginal tax rate of 34.5%. If we include the low income tax offset (LITO) and the low and middle income tax offset (LMITO), this results in a net tax saving of \$4,075 (after income tax and 15% tax paid in super<sup>3</sup>). Helen also benefits by having her retirement savings grow in a low tax environment.

### Tips and tricks

- After the end of the financial year, you will receive a letter from your super fund asking if you intend to claim a tax deduction for your personal contributions. Consult your financial adviser or tax consultant before making a decision.
- However if you start a pension, withdraw or rollover your money, don't wait until the end of the financial year. You will need to notify your super fund that you intend to claim a tax deduction before you start a pension, withdraw or rollover your money.
- Ensure you have notified your super fund and provided the form that you intend to claim a tax deduction for personal contributions. You should receive acknowledgement of receipt of that notice from the fund before you complete your tax return, start a pension or withdraw or rollover money from the fund to which you made your personal contribution.

### Further information

For further information about this strategy and how you may benefit please contact:

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#### Notes:

1. An additional 15% tax may apply to certain concessional contributions if your income plus concessional contributions exceed \$250,000 in the 2021/2022 financial year.
2. Individuals can elect to withdraw up to 85% of their excess concessional contributions from their superannuation. Depending upon the amount effectively withdrawn, excess concessional contributions left in the super fund may also count towards the non-concessional contribution cap.
3. Personal income tax and Medicare levy if no personal deductible contribution is made is \$14,842. If the \$20,000 personal deductible contribution is made personal income tax reduces to \$7,767 and \$3,000 contributions tax is paid in the super fund.