Making the Most of Your CGT Caps – Concessional Contributions

So, the end of the financial year has ticked over. Your accountants have partied like it's 30 June 1999 and you've found yourself, like them, reflecting on the year that was and wondering where all your money went.

If you've been fortunate enough to have surplus funds, you may have even set some of those funds aside for a rainy day. Such as for when you retire. Successive Australian governments have supported the idea of individual responsibility for retirement saving. This reflects concerns about the funding headache that the introduction of a generation of taxpayer-funded pensioners might otherwise impose on the public purse as our population shifts toward an older demographic profile.

Key to the success of this initiative was the introduction of compulsory superannuation contributions – called superannuation guarantee (SG) contributions - in 1992 requiring employers to then contribute 3% of wages to each employee's superannuation fund. In recognising the modesty of this rate in light of the policy objective to have almost everyone with superannuation savings, the rate has gradually increased over time to its current rate of 10% (since 1 July 2021). Ultimately the rate will rise to 12% (from 1 July 2025).

Alongside this mandatory measure, the Government has provided incentives for individuals to divert funds voluntarily into their super funds, subject to certain limits.

One of those incentives is the **concessional contribution**. Concessional contributions are tax deductible to the party that makes the payment. The contributions are ultimately taxed at a concessional rate of 15% on receipt by the super fund.

The annual limit ('contributions cap') has fallen in recent years. In the year ended 30 June 2008, for example, a 60 year-old could make concessional contributions up to $100,000. In the year ended 30 June 2021, the concessional contributions cap was $25,000 for individuals of all ages. In the year ending 30 June 2022, the cap is $27,500.

Concessional contributions include payments made to an employee's super fund by their employer. These include the mandatory SG contributions along with any amounts withheld from the employee's gross salary by way of 'salary sacrifice' paid directly to the employee's superannuation fund. These payments are claimed as tax deductions by the employer. Also counted as concessional contributions are voluntary payments made by employees themselves to their super funds using 'after-tax dollars'. These payments are tax deductible to the employee.

While most non-salary benefits (i.e., payments made in lieu of cash) provided to employees are taxed as fringe benefits, salary sacrificed superannuation contributions are exempt from fringe benefits tax (FBT). The combination of tax deductibility and exemption from FBT provides a significant incentive to maximise one's concessional contributions. So, what if your employer's annual contributions added up to only say, $20,000 leaving an 'unused' concessional contributions cap of $5,000? Can you take advantage of the extra room in your cap? The answer is, yes you can.

If you found yourself for instance with surplus funds of $10,000 and wanted to put those funds away for your retirement, you could invest the funds either inside or outside the superannuation system. If you chose to invest within the superannuation system (where funds cannot be access until a 'condition of release', such as retirement is satisfied) you could contribute an amount up to $5,000 as an additional, after-tax, concessional contribution. The contribution would be tax deductible to you. If your annual salary was $65,000 (with no salary sacrifice in place) this would result in a tax saving to you of $975 ($5,000 x [34.5% - 15%]). If you were on $130,000, the tax saving would be $1,200 ($5,000 x [39% - 15%]).

If you wished to contribute an additional $5,000 to your superannuation fund beyond the concessional contributions cap, this could be contributed to the fund as part of your '**non-concessional contributions** cap' ($110,000 for the 2021-2022 year). The non-concessional contributions cap is set at 4 times the concessional contributions cap. Non-concessional contributions are <u>not</u> tax deductible.

The tax treatment of the respective caps is as follows:

	Contributions Tax	Tax on fund income (accumulation phase)	Tax on fund income (pension phase)
Concessional contributions	15%	15%	0%
Non-concessional contributions	0%	15%	0%

Before claiming a tax deduction for a concessional contribution, you must first notify your super fund of your intention to make such a claim. Your super fund will then provide confirmation to you of the amount to be claim as a concessional (tax deductible) contribution. Most super funds provide their own form on which the notification can be submitted. Alternatively, the ATO provides a generic form that you can submit to your super fund.

Note that the aggregate of unused concessional contributions caps from previous years (from 1 July 2018) can be contributed to a super fund and claimed as a tax-deductible concessional contribution in the current year, so long as the balance in the super fund at 30 June in the previous financial year was less than $500,000. So even if you forgot to make your concessional contributions before 30 June 2021, you can make 'catch-up' contributions, utilising any unused concessional caps carried forward from the 2019, 2020 and 2021 years, and claim them as tax deductions in the year ending 30 June 2022.

If you have a query regarding the tax treatment of superannuation contributions, earnings, or payments, contact the Tax Consulting team at Nexia Canberra. If you need assistance establishing or operating a self-managed superannuation fund (SMSF), contact our dedicated Superannuation team.

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