Super Strategies Getting Started

Superannuation can be one of the most tax effective ways to build your retirement nest egg. There are a range of strategies you can consider to boost your super savings.

Consolidate your super

If you've had several jobs since you started working, you may have money in more than one super fund. Having more than one super fund means you could be paying unnecessary fees and insurance premiums on each one. Combining all your super funds and insurance into one can make your super easier to track, simpler to manage and ensure you save on fees and charges.

Keep in mind, certain lost super accounts with balances of less than $6,000, as well as the balances of members not able to be identified by their fund, are automatically drawn together by the Australian Tax Office (ATO) to reduce your account fees. In addition, from 1 July 2013, the Government started paying interest linked to the Consumer Price Index (CPI) on all lost super accounts reclaimed from the ATO – so your lost super savings will keep pace with inflation.

From 1 July 2019, the ATO will automatically consolidate super it holds for a person by transferring it to an active superannuation account if the total consolidated value is more than $6,000.

Track down your super

One way to find out where your super is located is by checking the statements you have received from each of your previous super funds or by calling your past employers.

If you can't trace your super, it may be classified as unclaimed, which means the ATO is holding it on your behalf.

You can now check all super accounts attached to your TFN by visiting the myGov website or asking your current super fund to conduct a search on your behalf. You might find a handy sum to boost your super. Do some housekeeping and make sure your superfund has your tax file number (TFN). This will make it easier to find lost super, move your super between accounts and receive super payments from your employer or the Government as well as make personal contributions.

Once you've tracked down all your super, you need to decide which super fund best suits your personal and financial circumstances. Before deciding on a fund, compare the costs and benefits of each.

There are mainly four important things to consider before moving your super:

- Will an exit fee be deducted from your investment? Exit fees on superannuation accounts are banned from 1 July 2019.
- Are there any investment and/or taxation implications?
- Will you need to make new insurance arrangements? And will your new super account have adequate insurance coverage compared to your old account? Can you consolidate insurance as well as your super?
- Will your current employer contribute to the chosen super fund?

Salary sacrifice

Currently, most employees receive super guarantee (SG) contributions from their employer of at least 11%[1] of their salary. Making super contributions directly from your gross (pre-tax) salary can be an easy and tax-effective way to top up your super. This is called salary sacrifice.

Some of the benefits of salary sacrifice are:

- It's simple, automatic and consistent.
- You do not pay personal income tax on salary sacrifice contributions to super (up to certain limits). Your super contributions are generally taxed at 15%[2] in the super fund, which may represent a significant tax saving, particularly if you are on the highest marginal tax rate of 45% plus applicable levies.
- By making a salary sacrifice contribution, you can reduce your taxable income.
- The difference in taxation may mean more money is available to invest in super than if you were to receive the money as after-tax income and then invest it.
- Future earnings on contributions made to super are concessionally taxed at a maximum of 15%.
- Up to $50,000 of voluntary salary sacrifice contributions are eligible for the First Home Super Saver (FHSS) scheme[3].

You should check with your employer first to see whether salary sacrifice arrangements are available and that adopting a salary sacrifice strategy will not reduce the amount of SG contributions your employer pays on your behalf.

Personal tax–deductible contributions

You can generally claim a full tax deduction for personal contributions you make to super. While still subject to the concessional contributions cap, this strategy may prove timely if you have made a considerable capital gain from the sale of a property or shares – as your deductible contribution to your super fund may help to offset your assessable capital gain. Not only could it reduce your marginal tax rate, it may also boost your super balance for retirement.

Personal tax-deductible contributions can also be a flexible way of maximising your concessional contributions near the end of a financial year.

Personal tax–deductible contributions are also eligible for the First Home Super Saver (FHSS) scheme. Note that if you are not able to claim your super contributions as a tax deduction (for example, your income for the year is too low), they will be treated as after–tax (non– concessional) contributions. To make a personal tax-deductible contribution, you need to submit a valid deduction notice to your super fund within strict timeframes, and have it acknowledged by your fund in writing.

Take advantage of the government co–contribution

To encourage you to save for your retirement, if your total income[4] is $43,445 pa or less and you make a
$1,000 after–tax contribution to super, the Government will generally contribute $500 to your super.

The co–contribution is calculated as 50% of your after tax contribution, but the maximum $500 government co– contribution also reduces by 3.33 cents for every dollar you earn over $43,445 pa and ceases once your total income reaches $58,446 pa.

When determining eligibility for the Government co- contribution, earnings that are salary sacrificed to super and reportable fringe benefits come under the definition of total income. If you fit within the income thresholds outlined above, and satisfy some other conditions, contributing to your super from your after tax salary before the end of the financial year may be a great way to top up your super, and get an extra boost from the Government.

Split super contributions with your spouse

If you have a spouse, you are permitted to transfer certain super contributions from the previous financial year over to the super account of your partner.

If the receiving spouse is over preservation age at the time of the split request, he or she must declare that they are not retired.

Splits cannot be done once the receiving spouse turns
65. You can do this every year, generally once the financial year has ended.

Up to 85% of taxable (concessional) contributions (up to the concessional contributions cap) such as SG, salary sacrifice, and personal tax–deductible contributions made to super can be transferred.

There are several reasons for considering splitting super with your spouse:

- If you and your spouse are both between preservation age and age 65, withdrawing the money from two members account may result in lower marginal tax rate for each member.
- Transferring contributions from the younger spouse to the older spouse could enable you to access more retirement money earlier.
- Transferring money from the older spouse to the younger spouse could enable the older spouse to receive more Age Pension by delaying the date at which their super becomes an assessable asset.
- Splitting superannuation monies does not count towards the receiving spouse's contributions cap.[5]
- To help equalise balances between you and your spouse. From 1 July 2024, a $1.9 million 'transfer balance cap' applies to limit the total amount of super savings you can

use to commence retirement phase income streams (where earnings on assets are tax free). Because this cap applies on an individual basis, equalising super balances between members of a couple can ensure that both members stay below this cap.

Super splitting is not offered by all funds, so you will need to check whether your fund offers this feature.

The benefits of spouse contribution tax offsets

Another potential tax concession is a spouse contribution tax offset. This strategy may be available if you make after tax contributions directly to your spouse's super account – these are known as eligible spouse contributions. To take advantage of this strategy, your spouse will need to be under age 75. You can open a super account in your spouse's name and make contributions to that account from your after–tax pay.

You can also make these contributions to your spouse's existing super account.

If your spouse's assessable income, reportable employer super contributions and reportable fringe benefits are under $37,000 pa, you will receive an 18% tax offset on the first $3,000 you contribute on their behalf, up to $540 pa. The offset operates on a sliding scale and phases out to zero once their income exceeds $40,000 pa.

Contribution eligibility

In order to make most voluntary super contributions, at the time of the contribution, you must be under the age of 75.

For individuals aged 67 to 74 who want to want to claim a tax deduction on personal contributions, they will need to have been employed for gain or reward for 40 hours in a 30 consecutive day period during the financial year[6]:

- This includes up to 28 days after the end of the month in which you turn 75
- Spouse contributions cannot be made where the receiving spouse is aged 70 or over.

Voluntary contributions generally cannot be made once you have reached age 75. Compulsory contributions (eg. Super Guarantee) can be made at any time regardless of your age.

A word on contributions caps

When considering any super strategy, it's important to assess how much you are contributing to super in any one year. The Government has set annual limits – known as contributions caps, and additional tax may apply where you exceed the caps.

The contributions caps for the 2022–2023 financial year are:

- A concessional contributions cap of $27,500 per financial year[7].
- If you have a total superannuation balance of less than $500,000 just before the start of the financial year, you can accrue unused concessional contributions to use within the following five financial years. The oldest available unused cap amounts are used first. For example, unused cap amounts from 2018–19 would be applied to increase your cap first before unused cap amounts from 2019–20. Unused cap amounts are only available for five years and will expire after this. For example, a 2018–19 unused cap amount which is not used by the end of 2023–24 will expire.
- A non-concessional contributions cap of 110,000 per financial year, or up to $330,000 over a three–year period (known as the bring–forward rule) if you are under age 75 any time during a financial year.
- In addition, the amount of the non- concessional contributions cap you can bring forward will either be:
  - $330,000 if your super balance on 30 June of the previous financial year is less than $1.68 million
  - $220,000 if your super balance on 30 June of the previous financial year is above $1.68 millionand less than $1.79 million
  - Nil ($0) if your super balance[8] on 30 June of the previous financial year is above $1.9 million.

Catch up Concessional Contributions

From 1 July 2018, you may be able to accrue your unused Concessional Contributions and carry these amounts forward to enable you to make Concessional Contributions in excess of your annual cap in subsequent years.

Amounts will be carried forward on a five-year rolling basis. As the new regime will only apply to unused amounts accrued from 1 July 2018, the first year you may be eligible to use a carried forward amount will be the 2019/20 financial year.

To make use of carried forward Concessional Contributions, your super balance cannot exceed $500,000 on the 30 June of the previous financial year. Unused amounts which you have not used within five years cannot be carried forward.

The Bring Forward rule

The annual *non-concessional* contribution cap for the 2023/24 financial year is $110,000. If you are aged 74 or under on 1st of July in a financial year you may be able to trigger the 'bring-forward' rule to make larger contributions.

The 'bring-forward' rule effectively groups contributions over a three year period. It allows you to bring forward two years' worth of non-concessional cap and add it to the current year's cap. But you can only contribute up to $330,000 over the three year period. This rule is particularly useful if you are selling a large asset (such as an investment property) and want to contribute the proceeds into superannuation. The bring-forward rule is automatically triggered if you exceed your annual non-concessional limit. Once triggered, your non-concessional contribution cap will not be indexed for the next two years.

First Home Super Saver Scheme

The First Home Super Saver (FHSS) scheme allows you to save money for you first home inside your super fund.

Under the FHSS scheme, you can make voluntary concessional (before-tax) and voluntary non-concessional (after-tax) contributions into your super fund to save for your first home.

You can use this scheme if you are a first home buyer and both of the following apply:.

- You either live in the premises you are buying, or intend to as soon as practicable
- You intend to live in the property for at least six months within the first 12 months you own it, after it is practical to move in.

You can apply to have a maximum of $15,000 of your voluntary contributions from any one financial year included in your eligible contributions to be released under the FHSS scheme, up to a total of $50,000 contributions across all years. You will also receive an amount of earnings that relate to those contributions.

Downsizer contributions

If you are aged 55 or older, you may be able to make a downsizer contribution into your superannuation of up to $300,000 from the proceeds of selling your main residence.

In order to be eligible, among other things, the contract for sale of the property must be entered into (exchanged) on or after 1 July 2018 and:

- The property must be in Australia and not be a caravan, mobile home, or houseboat
- The property must have been owned by you, and/or your spouse, for at least ten years prior to disposal
- The property must be eligible for at least a partial capital gains tax (CGT) main residence exemption.

A downsizing contribution can be made regardless of your 30 June Total Super Balance (TSB). However, once a downsizing contribution is made, it will increase your TSB for the future application of that test.

A maximum contribution of $300,000 per person is permitted and must be accompanied by a prescribed election form. However, this may be limited by the actual sale proceeds of the house. Downsizing contributions will not be included in any contribution cap.

The downsizing contribution legislation does not provide any extension or exemption from the pension transfer balance cap for these contributions.

You can only make downsizing contributions for the sale of one home. You can't access it again for the sale of a second home. There is also no requirement for you to purchase another home.

Downsizer contributions are not tax deductible.

Accessing Super

When contributing additional contributions into super, it's important to remember that superannuation is for the purpose of retirement. Any extra contributions which are made into your super account will be locked away until you meet a condition of release – generally retirement.
You can learn more about other conditions of release via the ATO.

How financial advisers help

It's important to keep your financial adviser informed about any super contributions you make so they can ensure you don't exceed these caps. Contributions over these caps can be taxed at up to 47%[9].

When assessing your concessional contributions, you will need to include all your employer superannuation guarantee contributions form and employers over the year and any salary sacrificed amounts, as well as personal contributions for which you will claim a tax deduction.

[1] The SG rate will be 11% until end of financial year 2023/24. After that it will increase gradually each financial year by 0.5% until it reaches 12% on 1 July 2025.

[2] If your total income (including your concessional contributions) exceeds $250,000, you will need to pay an additional 15% tax on part or all of your concessional contributions.

[3] Up to $15,000 per year, and $50,000 total of voluntary superannuation contributions made since 1 July 2017 are eligible First Home Super Saver contributions.

[4] Total income equals assessable income plus reportable fringe benefits plus reportable employer super contributions, less business deductions (other than for work related expenses or personal super contributions).

[5] The original contribution made does count towards the members' concessional contributions cap.

[6] From 1 July 2020, those aged 67 to 74 may continue to make voluntary contributions to super in the financial year after they last satisfied the work test.

[7] If you have a total superannuation balance of less than $500,000 just before the start of the financial year, you can accrue unused concessional contributions to use within the following five financial years. The oldest available unused cap amounts are used first. For example, unused cap amounts from 2018–19 would be applied to increase your cap first before unused cap amounts from 2019–20. Unused cap amounts are only available for five years and will expire after this. For example, a 2018–19 unused cap amount which is not used by the end of 2023–24 will expire.

[8] Total super balance is broadly the total of all your superannuation accounts, whether in the accumulation or pension phase.

[9] Contributions made in excess of your concessional contributions cap are effectively taxed at your marginal tax rate, plus an interest charge. You are also able to withdraw up to 85% of any excess concessional contributions. Contributions made in excess of your non–concessional contributions cap may be taxed at 47%, however, you can instead generally elect to withdraw non–concessional contributions above your cap tax free, plus an associated earnings amount which is taxed at your marginal tax rate less a 15% tax offset. Interest charges may also apply to the amount of tax payable to cater for timing differences on when the tax is payable. From 1 July 2018, if you don't make this election, the ATO will take action to withdraw non concessional contributions above your cap on your behalf

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