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Making the most of your super limits

Getting more money into superannuation is a proven way of building wealth to spend in retirement.

Ongoing contributions from your employer over the course of your working life, and potentially extra contributions made by you, can make a huge difference to your super balance over the long term as your account balance continues to grow.

Best of all, super contributions are only taxed at 15 per cent up to prescribed annual limits. And, when you finally reach retirement age, your super can be converted into a tax-free pension income stream. You can also pull out your super money tax-free after retirement via one or more lump sum payments.

But how much extra money can you put in each year, and what's the best way of doing it?

Know your super limits

The starting point to making extra super contributions is to know exactly how much you're allowed to put in.

At the start of July this year the minimum guaranteed amount of super that all employers must pay their workers aged 18 and above into a registered super fund account was lifted from 10 per cent of their ordinary wage to 10.5 per cent.

Employers must also pay super at the same rate to any employees aged under 18 who work more than 30 hours a week.

At the same time, the total amount of money that can be put into super each year at the "concessional" 15 per cent tax rate – including employer contributions – was increased from $25,000 to $27,500 this year.

And the amount that can be directed into super using after-tax money was increased from $100,000 per year to $110,000. These are known as non-concessional super contributions.

Ways to boost your super contributions

Salary sacrificing: The simplest way to get more money into your super is to let your employer know, and to arrange for them to make the extra contributions to your super fund on your behalf directly from your pay during each payment cycle.

Instead of paying your normal rate of tax on these extra contributions you'll only pay the 15 per cent concessional contributions rate (which is automatically deducted).

You can generally specify with your employer that you want a set percentage rate (of your salary) or a fixed dollar amount to be "sacrificed" into your super fund on top of the mandatory 10.5 per cent in super they have to pay.

Thanks to compounding investment returns, even small extra amounts paid every pay cycle from your before-tax earnings will go a long way towards increasing your retirement nest egg over time.

One-off payments: In addition to salary sacrificing, it's also possible to add money into your super fund using other money you've accumulated over time.

You've probably already paid tax on this money at your normal tax rate, so the Tax Office allows you to deposit it into your fund at any time during the financial year and then claim a deduction for the tax you've paid above the 15 per cent super tax rate.

You first need to check with your super fund if it allows after-tax contributions and then lodge a 'Notice of intent to claim or vary a deduction for personal contributions' form when you lodge your next tax return.

After-tax contributions can be used in conjunction with pre-tax contributions, including those made by your employer.

Catch-up contributions: You may also have scope to make extra concessionally taxed (15 per cent) super contributions under "catch-up legislation" introduced from the start of the 2019-20 financial year.

This allows you to carry over any unused annual concessionally taxed contributions (that is, if the total payments into your super fund including your employer's payments are less than the $27,500 maximum annual limit) on a rolling basis for up to five financial years.

In other words, if $20,000 in concessional contributions were made into your account in 2020-21, you may be able to take advantage of your unused gap from last financial year and roll it over into your 2022-23 contributions.

You can make catch-up contributions at any time, and then claim a tax deduction in your next tax return.

You're able to check what's available to you in catch-up contributions by logging into the myGov website, navigating to the Australian Taxation Office, selecting Super and "Carry forward concessional contributions" under Information. To take advantage of this option your overall super balance must be below $500,000.

Non-concessional contributions: Non-concessional contributions are after-tax personal contributions you make into your super fund, which can't be claimed as a tax deduction.

They're completely separate from your annual concessional contributions and are subject to their own annual limits.

Typically, non-concessional contributions are made using the proceeds from larger asset sales such as from a home or investment property.

The non-concessional contributions limit is currently $110,000 each financial year. However, under what's known as the "three-year pull-forward rule", you can make a $330,000 non-concessional contribution in one financial year.

You're then unable to make further non-concessional contributions for the next three financial years.

If you have more than $330,000 to contribute in total, you could make use of the annual $110,000 limit before 30 June next year. Then, from 1 July, you could use the three-year pull-forward rule to contribute up to another $330,000.

The main advantage of making non-concessional contributions is to have more of your money inside the super system that can generate tax-free earnings in retirement.

Downsizer contributions: The "downsizer measure" enables individuals aged 60 years and above to add up to $300,000, and couples up to $600,000, into their super from the proceeds of their principal place of residence.

A downsizer contribution forms part of the tax-free component in your super fund. It can be made in addition to non-concessional super contributions and doesn't count towards your personal super contribution limit.

There are a range of conditions around downsizer contributions, and it's prudent to check these on the Tax Office website.

Exceeding the limits

It's important to be aware of all the super contributions boundaries.

Excess concessional contributions are included in assessable income and taxed at your marginal tax rate.

The Tax Office applies a 15 per cent tax offset to account for contributions tax already paid by your super fund.

You then have the option of withdrawing up to 85 per cent of any excess concessional contributions from your super fund to help pay your income tax liability.

If you don't you could be taxed heavily and any excess concessional contributions not released from your fund are counted towards your non-concessional contributions cap.

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/retirement/making-the-most-of-your-super-limits

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