



The Superannuation Contribution Cap Trap

Simon Whiteley, Equity Trustees Superannuation Limited

If you were one of the 65,000 Australians who breached their Concessional Contributions Cap last year and received a tax penalty, then you will probably appreciate the timing of this month's newsletter. I am going to explain what constitutes a concessional contribution, to assist you to maximise your contributions this year and hopefully avoid breaching your caps.

Concessional Contributions

In the simplest terms a concessional contribution is a contribution to your Superannuation for which 'someone' (i.e. you or your employer) has received a taxation concession. The following are the most common examples:

Employer Superannuation Guarantee (SG) Contribution – This is the 9% of your salary or wages that your employer is required by Legislation to contribute to your Superannuation.

Employer Voluntary – These are payments made by your employer that are above and beyond the 9% SG Contribution. These can be made in a number of ways and are all counted towards your Concessional Contribution Cap:

- **Additional cash contributions to your Superannuation** – If your employer for example contributes 15% of your salary to your Superannuation, then the additional 6% (above the 9% SG) is classified as an employer voluntary contribution and counts towards your cap; and
- **Employer-Subsidised Superannuation fees and/or insurance premiums** – If your employer pays for your Superannuation administration fees or Insurance premiums, the amount paid will count toward your caps. Possibly, one of the more common causes of cap-breach is when a member does not take into account the amount paid in by their employer for the year to pay the member's fees or premiums.

Salary Sacrifice – Any additional contributions you make into your Superannuation under an effective salary sacrifice arrangement will count towards your Concessional Contributions Cap for the year.

Foreign Fund Transfers – When transferring Foreign funds into your Superannuation (for example transferring a UK Pension to a QROPS fund in Australia) the amount of this transfer in excess of the vested benefit is counted towards the concessional contributions cap.

Superannuation Guarantee Shortfall Payments – The full amount is counted towards the concessional contributions cap.

Self-employed Deductible Contributions – Self-employed individuals can contribute up to their concessional cap and claim a tax deduction for the full amount.

	Financial year ending 30 June 2011	
	Age under 50	Age over 50
Concessional Cap	\$25,000	\$50,000
Non-concessional Cap	\$150,000	\$150,000
3-yr Bring Forward Rule	\$450,000	\$450,000

The table above illustrates the current maximum contributions limits. If you add together all of the concessional contributions for the financial year and they exceed your age-based cap, you will receive a notice from the ATO advising you of a tax penalty equivalent to 31.5% of the amount of contributions that exceeds the cap. Combined with the 15% contributions tax applied on being paid into your fund, it takes the total tax paid on the excessive contributions to 46.5%, and it can get worse...

The excessive portion of your concessional contributions will also be counted towards your Non-concessional cap. If you have already contributed \$150,000 of non-concessional contributions this financial year (or if you have used the Bring Forward Rule to contribute up to \$450,000 in the past 3 years) the excessive portion will also result in you breaching the Non-concessional contributions cap. The penalty for this is an additional 46.5% tax, taking you to a total of 93% taxation penalty on the excessive portion.

Sometimes a breach is unavoidable and there are a few (as in not many) circumstances where the Commissioner of Taxation will consider relief for 'exceptional' circumstances. If you do breach your caps, you should seek advice. Sometimes it is outside an individual's control to stay within the contributions limits.

In summary, there are a number of pitfalls into which individuals commonly fall into when contributing to Superannuation. Check your age-based contribution limits and understand what types of contributions are being made into your Superannuation fund so that you do not breach your contributions limits.

2011/2012 Super Rates and Thresholds

The ATO has released some of the rates and thresholds for 2011/2012. Other rates and thresholds will be released by 30 June 2011.

	2011	2012
Concessional contribution cap	\$25,000	\$25,000
Non-concessional cap	\$150,000	\$150,000
CGT cap amount	\$1,155,000	\$1,205,000
Low rate cap amount	\$160,000	\$165,000
Untaxed plan cap amount	\$1,155,000	\$1,205,000
ETP cap for life benefit termination payment	\$160,000	\$165,000
ETP cap amount for death benefit termination payment	\$160,000	\$165,000
Transitional ETP cap amount:		
Lower cap amount	\$160,000	\$165,000
Upper cap amount	\$1,000,000	\$1,000,000

Financial advice

For help with managing your investment strategy, no matter how simple or complex, please contact me on **02 9458 5503** or email simon.whiteley@eqtsuper.com.

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