



Superannuation – the basics

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Superannuation

Superannuation is designed as a long term savings vehicle to provide for you in retirement.

Superannuation Guarantee (SG)

The Superannuation Guarantee (SG) system, which commenced in 1 July 1992, requires all employers to provide a minimum level of superannuation support into a complying superannuation fund or retirement saving account (RSA) for their eligible employees. These payments are called SG payments or employer contributions.

Employers are required to pay 9% of an employee's ordinary times earnings (OTE) into superannuation for their employee's benefit on a quarterly basis. OTE includes the total of an employee's earnings for ordinary work, over-award payments, commissions, shift loading, allowances and bonuses. Most employees who are aged 18 years but are under 70 years of age and are earning more than \$450 per month (before tax) are eligible for SG contributions. This applies whether you are full time, part-time or employed on a casual basis.

Types of contributions

A superannuation fund can accept numerous types of contributions from your employer, your spouse or yourself. From 1 July 2004 the contribution rules changed so that currently, anyone under the age of 65 may contribute to a superannuation fund or have contributions made to a superannuation fund on their behalf. The types of contributions include:

Concessional contributions

Concessional contributions (CCs) are sometimes known as 'pre-tax' contributions and are subject to the 15% contributions tax upon entry to the fund. CCs are generally employer contributions, such as:

- SG and award: these are compulsory contributions made by your employer on your behalf. Your employer is able to claim a tax deduction for these contributions.
- Employer voluntary: employers may in some circumstances make additional contributions over and above the required SG contributions into your fund.
- Salary sacrifice: in some cases employees may be able to make salary sacrifice contributions from their pre-tax salary. In this way, your income is replaced by a superannuation contribution made by your employer to your superannuation fund. Salary sacrifice contributions may be attractive to some people as instead of paying tax at your marginal tax rate, the superannuation contribution is taxed at a rate of 15% (see below).



CCs also include personal contributions by an eligible person (such as a self-employed person) for which an income tax deduction is claimed.

Non-concessional contributions

Non-concessional contributions (NCC) are personal contributions made by or for you from after-tax income. As these contributions are made with after tax income, they are not subject to the 15% contributions tax when contributed into superannuation. NCCs include:

- Personal contributions: are contributions made by you from your after tax money to your superannuation fund. You are unable to claim a tax deduction for these contributions however making such contributions may entitle you to the Government co-contribution (see below).
- Spouse contributions: are made by your spouse with after tax income into a superannuation fund on your behalf. If you are earning less than \$10,800 and up to \$13,800 your spouse may be able to claim a tax offset up to a maximum of \$540 for the contribution.

Caps on contributions

From 1 July 2007, individuals are limited to the amount of money that can be contributed to superannuation that is taxed at the concessional tax rate of 15%.

The CC cap for 2010/11 is \$25,000 for those under age 50 on the last day of the financial year. There is a transitional period until 30 June 2012 where the CC cap is \$50,000 per annum for those aged 50 years or over on the last day of the financial year. Contributions exceeding the relevant cap will be taxed at an additional 31.5% (on top of the 15% levied upon entry into the fund).

The NCC cap for 2010/11 is \$150,000 per person. A 3 year NCC cap is available to allow clients to bring forward 2 years of future contribution entitlements, provided they are under 65 at any time in the first financial year. When you contribute more than \$150,000 in NCCs in one year, you automatically trigger the { [HYPERLINK "http://www.superguide.com.au/superannuation-topics/bring-forward-rules"](http://www.superguide.com.au/superannuation-topics/bring-forward-rules) } for the following two years. Clients that are 65 and over are limited to a NCC cap of \$150,000 per annum thereafter. Contributions exceeding the NCC cap will be taxed at 46.5%.

Co-contributions

In July 2003, the Government introduced a new initiative in the aim of encouraging people to contribute more money to superannuation. In the 2010/11 financial year, for those earning less than \$31,920 per annum, for every dollar of personal NCCs made, the Government will match this with a co-contribution of \$1.00 up to a maximum of \$1,000. The co-contribution reduces for people earning between \$31,920 and \$61,920 after which the co-contribution is no longer available.



Superannuation choice

Superannuation Choice of Fund was introduced from 1 July 2005. Choice of Fund allows many employees to choose into which fund their employer contributions are made. If the employee does not make a choice, SG contributions are required to be paid into a default fund chosen by the employer. However, not all employees are eligible for Choice. This will depend on the type of award or agreement you fall under (if any) and you should speak to your employer for more information.

Superannuation contributions splitting

In some cases, members of a couple are able to split their superannuation contributions with each other. Only CCs are able to be split with your spouse and these are subject to a maximum limit known as the "maximum splittable amount". The maximum amount that can be split is the lesser of:

- 85% of the contribution; and
- The CC cap for the financial year that the contribution was made.

This strategy may be beneficial for couples to equalise their superannuation accounts.

Taxation

Superannuation as an investment is regarded as being concessional tax. CCs up to an individual's CC cap are taxed at 15% upon entry to the fund and personal NCCs are not taxed on entry. Contributions in excess of the caps (see above) are taxed at an additional 31.5% for CCs and 46.5% for personal NCCs.

Superannuation funds are subject to a maximum of 15% tax on earnings and a 10% tax rate on capital gains (if the asset is held for more than 12 months).

From 1 July 2007, withdrawals made from superannuation will be tax free for those who are age 60 or over. For those under age 60, the taxation on withdrawal is quite complex as there are various taxation rates depending on how you take your benefit and the components it is comprised of.

Providing tax file numbers to superannuation funds

While it is not compulsory for you to provide your TFN to your fund, if you do not provide it:

- Your fund must return all NCCs (ie. personal or spouse contributions) made on or after 1 July 2007 to you or to the entity that paid it within 30 days of becoming aware that they should not have accepted those contributions.

However, your fund does not have to return the contribution if, within 30 days of it being made, you give your fund your TFN.

- Your fund may be subject to an additional 31.5% 'no-TFN contributions tax' (on top of the 15% contributions tax you already paid) on assessable contributions (generally CCs such as employer and



salary sacrifice contributions), and your fund may take this extra money out of your superannuation account. The additional tax may be refunded back to your fund where a valid TFN is provided within a certain period (four years).

Please note that a superannuation fund does not have to return employer contributions where a TFN has not been quoted however this will trigger no-TFN contributions tax.

- You may miss out on Superannuation co-contribution even if otherwise eligible.

Access to your benefits

From 1 July 1999 all contributions paid into a superannuation fund are preserved until you have met your preservation age (currently 55 years and increasing to 60 years) and have fully retired from the workforce. In other limited circumstances you may be able to access your superannuation benefit, for example under financial hardship, if you become totally and permanently disabled or under the transition to retirement rules.

Transition to retirement

The Transition to Retirement rules allow people over preservation age (as above) to access their superannuation benefits as an income stream to supplement their employment income while still working. They enable people, for example, to move to part time work or reduce their responsibilities and hence the pay packet of their full time employment. There are no restrictions on the proportion of the superannuation benefit that can be used to support the income stream and no work or salary test to qualify. The only restriction is that the benefit must be taken as an income stream that is non-commutable (ie you are unable to make lump sum withdrawals) and the maximum income you are able to withdraw from a transition to retirement pension is 10% of the capital value each year.

At retirement

At your retirement, your fund may give you the option to take your superannuation benefit as either a lump sum or as an income stream. Examples of income streams include an Account Based Pension. Each of these have various features and benefits and the selection of one or a combination will depend on your circumstances at the time.

Lost superannuation

The Lost Members Register is a central register of lost superannuation fund members and retirement savings account (RSA) holders. There are a number of ways you can search for your lost superannuation:

- You can conduct your own online SuperSeeker search via the Australian Tax Office's website www.ato.gov.au.
- You can phone the Australian Tax Office's SuperSeeker self-help phone service on 13 28 65. This phone service is available 24 hours a day, 7 days a week.
- You can contact your current superannuation fund and ask them to conduct a search on your behalf.
- You can download and complete a Lost Members enquiry form via www.ato.gov.au.



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