Aspirations Wealth Group

Build and Protect your Wealth

Fact Sheet

Superannuation

Superannuation is a tax effective way to save for your retirement.

The purpose of this fact sheet is to help you understand basic rules and concepts relating to superannuation.

This includes information on:

- ⇒ Taxation
- ⇒ Contributions
- ⇒ Fund options
- ⇒ Fund types
- ⇒ Access

Taxation

Tax rates applicable to superannuation are:

⇒ Contributions tax	Up to 15% for individuals 30% for those earning $250,000 or above
⇒ Investment income tax	Maximum of 15%
⇒ Capital gains tax	15% for assets held less than 12 months 10% for assets held longer than 12 months

When a superannuation fund goes into 'pension phase' (where the member draws a regular income stream), the tax rate for income and capital gains reduces to nil. The income stream payments are also tax free for those aged over 60 (from a taxed fund) who are retired.

For those aged between preservation age and 60, income stream payments from a tax sources (less any tax free amount) are taxed at personal marginal tax rates and receive a 15% tax offset (for tax already paid).

Superannuation tax rates are often lower than your personal tax rate, therefore making this a tax effective investment vehicle for many.

Superannuation withdrawals

Funds withdrawn from superannuation may incur lump sum tax depending on your age, the total amount withdrawn and the superannuation component from which the funds are taken.

Outlined below is the tax treatment of superannuation withdrawals for various scenarios.

Aged over 60
For retired individuals aged 60 and over, withdrawals from a tax super fund are tax-free and non-assessable, non-exempt income.

Under age 60
This depends upon your personal circumstances and the components within your superannuation fund. Tax may be payable.

Death benefits
Super benefits paid to a beneficiary who is a 'tax dependant' are tax free. This includes a spouse, former spouse, a child under the age of 18, a financial dependant or interdependent.

Contribution types

There are two basic types - concessional contributions (before tax) and non-concessional contributions (after tax). Limits apply to the amount of contributions (both concessional and non-concessional).

Concessional contributions

Concessional contributions (current cap is $25,000) are generally contributions made by or for individuals that are tax deductible to the contributor and are assessable in the hands of the superannuation fund such as superannuation guarantee, salary sacrifice and personal deductible contributions. Concessional contributions form part of the taxable component of your superannuation fund.

Concessional contributions made in excess of the annual cap are charged penalty taxes. The cap is indexed to Average Weekly Ordinary Time Earnings (AWOTE).

Eligibility for concessional contributions over age 65 is based on a work test which requires you to be gainfully employed for 40 hours over a period of 30 consecutive days during the financial year in which the contributions are made.

Any contributions in excess of the concessional limit will be counted towards your non-concessional cap unless the you elect to have the excess concessional contributions refunded, rather than retaining them in superannuation.

Non-concessional contributions

Non-concessional contributions (current cap is $100,000 pa) include personal after-tax contributions and spouse contributions. These contributions are not taxed (provided they are within the annual limit) and form part of the tax-free component of your super fund. Non-concessional contributions made in excess of the annual cap may be charged penalty taxes and this cap is indexed in line with the concessional contribution limit.

Excess non-concessional contributions made after 1 July 2013 may be withdrawn from superannuation, along with associated earnings on these amounts. If you make the election to withdraw, you will not be subject to penalty tax on the excess non-concessional contributions however you will be subject to tax on the associated earnings. If your total superannuation balance is above $1.6 million you generally cannot make any further non-concessional contributions.

Bring forward rule

Members under 65 years of age will have the option of contributing up to $300,000 over a three-year period depending on their total superannuation balance. If you are under age 65 you can bring forward two years of non-concessional contributions. This enables up to three years of contributions in one year to be made to super, with no further contributions in the next two years. The year in which the three year cap is initially triggered, determines the value that can be contributed during the three year period.

The contribution and bring forward available to members under 65 is outlined in the following table.

Contribution and bring forward available to members under age 65	
Total superannuation balance	**Contribution and bring forward available**
Less than $1.4 million	Access to $300,000 cap (over three years)
Greater than or equal to $1.4 million and less than $1.5 million	Access to $200,000 cap (over two years)
Greater than or equal to $1.5 million and less than $1.6 million	Access to $100,000 cap (no bring-forward period, general non-concessional contributions cap applies)
Greater than or equal to $1.6 million	Nil

The total superannuation balance is determined on 30 June of the previous financial year.

Individuals aged 65 to 74 are unable to utilise the 'bring forward' rule and those over the age of 75 cannot make non-concessional contributions.

Excess non-concessional contributions above the cap will be taxed at the highest marginal tax rate plus Medicare levy. This will be payable by the individual and any liability must be paid within 21 days. You can elect to withdraw the excess non-concessional contribution and associated earnings, however, must do so within 60 days of the date of the ATO determination. Associated earnings are included in assessable income and taxed at an individual's marginal tax rate.

If you elect to withdraw an excess non-concessional contribution and the associated earnings, you must do so within 60 days of the date of issue of the determination sent by the ATO. The associated earnings will be included in your assessable income and taxed at your marginal tax rate. Beyond this time frame, you will not be able to withdraw, meaning the excess contribution will be retained in super and subject to penalty tax at 49%.

Spouse contributions

If you make an after-tax contribution of at least $3,000 to superannuation for your spouse, provided they receive $37,000 or less in the total of assessable income, fringe benefits and employer super contributions, then you can access the maximum tax offset of $540.

The tax offset is then progressively reduced until the tax offset reaches zero for spouses who earn $40,000 or more in the total of assessable income.

You and your spouse must both be Australian residents when the contributions are made and the contribution must be paid into your spouse's super fund or retirement savings account. Additionally, the contributions must not be deductible to you.

Government co-contributions

If you earn less than $53,564 (2019/20), and you contribute after-tax monies to your superannuation account, the government can contribute up to $500 a year to your super. Depending on your income, they will contribute 50 cents for every one dollar you contribute.

- Eligibility requirements are as follows:
  - You must be an Australian citizen, permanent resident or a New Zealand citizen working in Australia.
  - You must be less than 71 years of age.
  - You must have received more than 10% of your total income from eligible employment, running a business or a combination of both.
  - You must have a superannuation balance of less than $1.6 million.
  - You must lodge an income tax return to receive the super co-contribution.

The ATO will work out your eligibility and entitlement and deposit this directly to your superannuation account.

Super splitting

You may elect to have some of your super contributions split to your spouse, provided they are under their preservation age or between their preservation age and 65 years and not retired.

There are two types of contributions that can be split - employer contributions (concessional) and after tax contributions (non-concessional).

Super contributions can only be split in the financial year immediately after the year in which the contributions were made or in the same financial year as the contributions were made only if your entire benefit is being withdrawn before the end of that financial year as a rollover, transfer, lump sum benefit or a combination of these.

Downsizer contributions

If you decide to downsize your home and you are over the age of 65, you may be able to contribute some of the proceeds to super without having to meet the work test. The maximum amount that can be contributed as a downsizer contribution is the lesser of:

⇒ $300,000 or

⇒ the total proceeds from the sale of your house

You will be eligible to make a downsizer contribution to super if:

⇒ the amount you are contributing is from the proceeds of selling your home where the contract of sale exchanged on or after 1 July 2018.

⇒ your home was owned by you or your spouse for 10 years or more prior to the sale – the ownership period is generally calculated from the date of settlement of purchase to the date of settlement of sale.

⇒ your home is in Australia and is not a caravan, houseboat or other mobile home.

⇒ the proceeds (capital gain or loss) from the sale of the home are either exempt or partially exempt from capital gains tax (CGT) under the main residence exemption, or would be entitled to such an exemption if the home was a CGT rather than a pre-CGT (acquired before 20 September 1985) asset.

⇒ you have provided your super fund with the Downsizer Contribution into super form either before or at the time of making your downsizer contribution.

⇒ you make your downsizer contribution within 90 days of receiving the proceeds of sale, which is usually at the date of settlement.

⇒ you have not previously made a downsizer contribution to your super from the sale of another home.

Catch-up contributions

From 1 July 2018, individuals with a total superannuation balance of less than $500,000 will be able to make 'catch up' concessional contributions. The prior unused concessional contributions cap (currently $25,000) will be able to be accessed on a rolling basis for up to five years, with the ability to claim a tax deduction. Any unused concessional contributions cap for the year will expire after five years.

Fund options

The following are some of the various superannuation vehicles available:

Option	Details
Retail	⇒ Anyone can join. ⇒ They generally have a large number of investment options and are normally accumulation funds. ⇒ Most retail funds range from mid to high cost, but some offer a low cost or MySuper alternative. ⇒ The company that owns the fund aims to retain some profit.
Industry	⇒ Most industry super funds are open for anyone to join however, some are restricted to employees in a particular industry. ⇒ There are normally only a small number of investment options. ⇒ Most are accumulation funds, but some older funds still have defined benefit members. ⇒ Generally low to mid cost and some offer MySuper accounts. ⇒ Most are generally not for profit.
Self Managed Superannuation Fund	⇒ An SMSF is a private superannuation fund, regulated by the Australian Taxation Office (ATO) that you manage yourself. ⇒ SMSFs can have up to four members. All members must be trustees (or directors, if there is a corporate trustee) and are responsible for decisions made about the fund and compliance with relevant laws. ⇒ Set up costs and annual running expenses can be high, so it's most cost-effective if you have a large balance.
Corporate	⇒ A corporate fund is arranged by an employer, for its employees. ⇒ Those managed by a larger fund may offer a wider range of investment options. ⇒ Some older corporate funds have defined benefit members, most others are accumulation funds. ⇒ They are generally low to mid cost funds for large employers but may be high cost for small employers. ⇒ Funds run by the employer or industry fund will usually return all profits to members, while those run by retain funds will retain some profits.
Public Sector Funds	⇒ Public sector funds were created for employees of federal and state government departments. Most are only open to government employees. ⇒ They have a modest range of investment choices. ⇒ Many long-term members have defined benefits, newer members are usually in an accumulation fund. ⇒ They generally have very low fees and some offer MySuper accounts.

Fund types

Accumulation fund

This type of fund accumulates contributions and earnings to provide a retirement benefit. The final retirement benefit is dependent on the amount of contributions made and the earning rate of the fund.

Accumulation funds provide greater control over the selection of investment options as well as greater transparency of the fund's administration. In contrast to defined benefit funds (explained below), investment returns are not guaranteed. The investment balance of an accumulation fund can go up and down with movements in investment markets.

Defined benefit fund

Your retirement benefits are generally determined by factors such as your age, final salary at retirement, and how many years of service you had with your employer. Your final benefits are not reliant on investment returns and are generally guaranteed by the fund.

Access

Generally, you can't access superannuation benefits until you reach preservation age and have retired or reach the age of 65.

Preservation age is dependent upon date of birth as shown in the following table:

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

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