Super catch-up catching on

The Federal Government has made it easier for eligible super fund members to make additional tax concessional contributions into their super.

A change to the way people can boost their super with 'catch-up concessional contributions' is great news for eligible super fund members.

People typically contribute to their superannuation account in three ways:

- **Super guarantee (SG) contributions:** Money their employer/s deducts from their salary and pays into their super fund. Total payments over a financial year must, by law, total 9.5% of the person's salary. There are some exemptions to paying SG.

- **Concessional contributions:** If your SG contributions total less than $25 000 in a financial year, you can choose to make additional voluntary super contributions from your salary up to the $25 000 limit. These additional 'salary sacrifice' or 'personal tax deductible' contributions (also known as concessional contributions) are taxed at a concessional tax rate of 15% (in some cases up to 30%) compared to your marginal tax rate, which in most cases will be higher.

- **Non-concessional contributions:** As well as choosing to make voluntary concessional contributions up to the $25 000 cap, eligible super fund members can also make what are called non-concessional (after-tax) contributions. These contributions carry attractive taxation advantages. The current after-tax non-concessional contribution cap is $100 000 for each financial year. However, people under the age of 65 on 1 July in a financial year may be able to contribute in excess of the $100 000 cap up to an amount of $300 000 in a single financial year pursuant to the 'bring-forward rule'.

  This can be a valuable and significant way to boost your savings for retirement.

Catch-up concessional contributions

As part of the 2016 budget the Federal Government introduced a change to concessional contributions called 'catch-up' concessional contributions.

The change, which came into effect on 1 July 2018, allows individuals with a total superannuation balance of less than $500 000 just before the beginning of a financial year to make 'catch-up' superannuation contributions if they did not reach their $25 000 concessional contributions caps in the previous financial year.

For example, if in 2018-19 you make concessional contributions totalling $10 000 (as opposed to the cap of $25 000), then the following financial year you can 'catch-up' by making concessional contributions up to a total of $40 000 (consisting of the usual cap of $25 000 plus the $15 000 you chose not to contribute previously).

Some degree of flexibility is afforded with this change as individuals can access their unused concessional contributions cap on a rolling basis for a period of five years. Amounts that have not been used after five years will expire. The changes apply from 2018/19 onwards.

Increased fairness for interrupted careers

As the Federal Government has pointed out: "The annual concessional (before-tax) superannuation caps currently offer little flexibility for those who take time out of work, work part-time, or have 'lumpy' income and therefore have periods in which they make no or limited contributions to superannuation."

Andrew Proebstl
Chief Executive of legalsuper

"Women often have interrupted work patterns or work part-time, which contributes to lower, on average, superannuation account balances than men."

"Additionally, individuals may take time out of the workforce to undertake caring responsibilities, further studies, or due to physical or mental illness."

"Similarly, there is limited flexibility for those who find that they have greater disposable income later in life when some ongoing costs, such as mortgage repayments and school fees diminish."

"Allowing people to carry forward unused concessional cap amounts provides them with the opportunity to 'catch-up' if they have the capacity and choose to do so."1

The financial benefits

The following scenario from the Federal Government explains how catch-up concessional contributions can work.

"'Cassandra' is a 46-year-old earning $100 000 per year. She has a superannuation balance of $400 000. In 2018-19, Cassandra has total concessional superannuation contributions of $10 000. In 2019-20, Cassandra has the ability to contribute $40 000 into superannuation of which $25 000 is the amount allowed under the annual concessional cap and $15 000 is her unused amount from 2018-19 which has been carried forward. The full $40 000 will be taxed at 15% in the superannuation fund. Prior to the changes, her amounts in excess of the annual cap would have been subject to tax at her marginal rate, resulting in an additional $3 300 tax liability."2

In addition to the specific tax advantages 'Cassandra' will gain by taking advantage of catch-up concessional contributions, she has increased her overall super balance and will also enjoy the compound earnings advantages her super savings receive.

Super fund members eligible to take advantage of catch-up concessional contributions, along with all super fund members considering making other concessional or non-concessional contributions, should ensure that the contributions they make do not exceed the prescribed caps. The respective caps apply as an aggregate across all super funds a person may have. Contributions in excess of these limits may be taxed at a higher rate.

Your super fund(s) will be able to provide information and guidance regarding the amounts you have contributed and how this compares to the relevant caps.

This information is of a general nature only and does not take into account your objectives, financial situation or needs. You should therefore consider the appropriateness of the information and obtain and read the relevant legalsuper Product Disclosure Statement before making any decision.

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