NON CONCESSIONAL CONTRIBUTIONS

ISSUED: APRIL 2020
VERSION: APRIL 2020

Non-concessional contributions are sometimes referred to as 'after-tax' or 'undeducted' contributions, because tax has already been paid or deducted from the money used to make the contribution.

There are two main types of non-concessional (after-tax) contributions:

- Personal contributions you make as a superannuation fund member and don't claim as a tax deduction in your income tax return. These are often called 'voluntary' contributions and can be either a large lump sum or small regular amounts from your wages or salary.
- Spouse contributions are made directly into your spouse's superannuation account. This can be a tax-effective way for a couple to save for retirement if one partner is only working part-time or has a low income. They can also help to balance the amount you and your spouse have in superannuation and can equalise your retirement income.

BENEFITS

- Investing in superannuation can boost your savings to help meet your retirement goals.
- A special concessional rate of tax applies to superannuation fund earnings whereas earnings from non-superannuation investments are generally taxed at marginal tax rates which may be typically higher.
- Your tax-free component will increase. This amount can be withdrawn tax-free and is also tax-free if paid to a non-tax dependent (such as an adult child) after your death. This can increase the amount payable to your family or estate.
- If you make a non-concessional contribution, and you are eligible, the Government will make a co-contribution on your behalf. The amount of Government co-contribution you will receive will depend on the amount that you have contributed and the amount of income you have earned during the year.
- If you make a non-concessional contribution into your spouse's superannuation account, and their annual income is below the income threshold you may be able to claim a tax offset. The amount of the tax offset you will receive will depend on the amount of your contribution and the amount of income your spouse has earned during the year.
- Department of Human Services/Department of Veterans' Affairs entitlements may increase if you are under Age Pension age (or under age 60 if a veteran) due to exemptions on the assessment of superannuation.

HOW IT WORKS

To be eligible to contribute to superannuation, you must meet the contribution rules. This generally means you need to either be:

- under age 65;
- age 65-74 and have met the work test, or
- age 65 – 74 and meet the requirements for the work test exemption.

Non-concessional contributions are made from after-tax income and include:

- personal contributions where you have not claimed an income tax deduction (if you do claim a tax deduction for the contribution it will be classified as a concessional contribution);
- after-tax salary that you have requested your employer to direct into superannuation on your behalf;
- spouse contributions;
- contributions in excess of your capital gains tax (CGT) cap from business assets; and
- most transfers from foreign superannuation funds.

Non-concessional contributions do not include superannuation guarantee (SG) contributions, salary sacrifice or certain contributions resulting from personal injury payments.

However, excess concessional contributions that you elect to retain in superannuation will count against your non-concessional contribution cap. Non-concessional contributions form part of the tax-free component of your superannuation account, which is tax-free when withdrawn from super, even whilst you are under age 60 (subject to meeting preservation rules).

NON CONCESSIONAL CONTRIBUTION CAP (NCC CAP)

There is a cap on how much you can contribute as a non-concessional contribution each year.

There are certain restrictions that may apply to the maximum amount you can contribute, which is dependent on your total superannuation balance.

If you exceed your NCC cap, the excess contribution may be withdrawn from superannuation, along with any associated earnings within 60 days of the excess being determined by the ATO. The associated earnings will be included in your assessable income and taxed at your marginal tax rate. If you do not make the election to withdraw within 60 days, the excess contribution will be taxed at the highest marginal tax rate.

These rules are complex so it is important that you get advice.

BRING-FORWARD RULE

If you are under age 65 on 1st of July in a financial year and have a superannuation balance of less than the transfer balance cap, you may be able to trigger the 'bring-forward' rule to make larger contributions. This rule is particularly useful if you are selling a large asset (such as an investment property) and want to contribute the proceeds into superannuation.

The 'bring-forward' rule effectively groups non concessional contributions made over a three year period. It allows you to bring forward two years' worth of non-concessional contributions and add it to the current year's cap. The bring-forward rule is automatically triggered if you exceed your annual non concessional limit. Once triggered, your non-concessional contribution cap will not be indexed for the next two years.

Contribution limits tend to change annually. It is important to understand what the current rules are and to take note of any non-concessional contributions that you may have made in the past as this may have an impact on the amount you can contribute.

WHAT YOU NEED TO CONSIDER

- All contributions to superannuation are preserved until you meet a condition of release. You need to be sure that you do not need access to the amount contributed until you meet a condition of release, such as retirement after your preservation age.
- If you exceed your NCC cap excess contibution, significant tax penalties may apply.
- Excess concessional contributions that you elect to retain in superannuation count towards your NCC cap which may reduce your capacity to make additional NCCs.
- You will not be eligible to make non-concessional contributions if your total superannuation savings exceed the general transfer balance cap. Total superannuation savings include your accumulation accounts, retirement income streams, in transit rollovers and may also include certain limited recourse borrowing arrangements in self-managed superannuation funds.
- The Government may change superannuation legislation in the future.
- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.

REFERENCES

You may wish to refer to the following websites for further information about non-concessional contributions:

- www.ato.gov.au
- www.moneysmart.gov.au

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