

Simplified Superannuation

Fact Sheet — Contribution Rules — Concessional Contributions

Key Points

- Concessional contributions to superannuation will be limited to \$50,000 per person per annum. These contributions will be taxed at 15 per cent.
 - A transitional period will apply for people who are aged 50 and above to allow those planning their retirement to make larger contributions.
- Employers will be able to claim a full deduction for all contributions to superannuation on behalf of individuals under the age of 75. The Superannuation Guarantee will continue to apply only until age 70.
- The personal deduction eligibility rule will be simplified by making it consistent with the rule that currently applies for the Government co-contribution.
- A person can make non-concessional (post-tax) contributions in addition to concessional contributions.

How will the contributions limits change?

The age-based limits on concessional contributions will be abolished. A limit on concessional contributions of \$50,000 per person per annum will apply from 1 July 2007 — this will simplify the system. These contributions will be taxed at 15 per cent. The \$50,000 limit will be indexed to Average Weekly Ordinary Time Earnings but will only increase in \$5,000 increments.

How does the transitional period work?

During the transitional period, the cap on concessional contributions will be \$100,000 for those 50 years of age and over. The transitional period is from 2007-08 to 2011-12. A person who turns 50 during that period will be able to use the transitional arrangements. For example, a person who turns 50 on 1 January 2011 will be able to make \$100,000 of contributions in the 2010-2011 and 2011-12 financial years. The \$100,000 limit will not be indexed.

From the 2012-13 financial year, the maximum amount of concessional contributions per annum will return to the indexed \$50,000 amount.

How will the concessional contributions cap work?

Superannuation funds will report all concessional contributions (including notional taxable contributions, but not untaxed contributions) made for the benefit of an individual to the ATO. Where a person's concessional contributions exceed \$50,000 in a financial year, the excess will be effectively taxed at the top marginal rate plus Medicare levy. This tax will be applied to the individual, not the fund. A person will be able to ask their superannuation fund to release monies to pay the tax. If a person inadvertently breaches the cap, the ATO will be able to reduce the amount of excess contributions subject to tax.

The new threshold will apply per person, irrespective of the number of employers contributing on behalf of the person.

What can employers claim?

Employers will be able to claim a full deduction for all contributions to superannuation funds made on behalf of their employees under age 75.

What about deductions for personal contributions?

The rule that determines a person's eligibility to claim a deduction for personal contributions will be simplified.

A person who wishes to claim a tax deduction for a superannuation contribution will need to notify their superannuation fund before they lodge their income tax return, or before the end of the following financial year after the contribution was made, whichever is the earlier. This notification cannot be varied after this time. This will ensure the ATO will have the relevant information to count the contribution against the relevant cap.

What is included in the concessional contributions cap?

The cap will apply to all concessional contributions (including salary sacrificed contributions) made on behalf of an individual.

Contributions above the concessional cap will count towards the non-concessional contributions cap. This will ensure people cannot circumvent the non-concessional cap by making excessive concessional contributions.

As a transitional measure, contributions above the age-based limits will count towards the transitional \$1 million cap on non-concessional contributions with effect from 10 May 2006.