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Division 293 tax

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High income earners will be familiar with the somewhat dreaded 'Division 293 tax'. However, Division 293 tax does not only apply to those people who derive substantial income from employment or self-employment. The additional tax bill can crop up as a result of taxable income from other sources, including investment income, capital gains and other one-off events or payments (e.g. employment termination payments).

What is Division 293 tax and how does it apply?

Division 293 applies to anyone who has 'Adjusted Taxable Income' exceeding $250,000 in a financial year.

An individual's yearly income is added to certain super contributions and compared to the Division 293 threshold. Division 293 tax is payable on the excess over the threshold, or on the super contributions, whichever is less. It is effectively a personal tax liability, with the rate of Division 293 tax being 15%.

Concessional contributions include the 12% super guarantee paid by an employer, salary sacrifice super contributions and personal tax-deductible contributions. These contributions are ordinarily taxed at 15%, but when captured under the Division 293 rules, this increases by an additional 15%.

It is important to note that the 30% total tax remains less than the top marginal tax rate of 47% (including the 2% Medicare Levy) that generally applies to earners liable for Division 293.

This $250,000 income threshold for Division 293 has not altered for a number of years. With the wage growth seen in recent years, more Australians are paying 30% tax on their super contributions as they move above the income threshold.

This specific income definition is explained on the Australian Taxation Office (ATO) website and incorporates:

- taxable income
- reportable fringe benefits
- net investment losses
- net rental losses
- family trust distributions, and
- concessional contributions.

The ATO determines the requirement to pay Division 293 tax based on various information lodged in the previous year tax return. The assessment notice allows an individual to elect to pay a Division 293 tax bill either with personal funds, or by electing to use their super account balance.

Different rules apply to members of defined benefit funds.

What happens if I am near the threshold?

Division 293 tax is only applied to the portion of concessional contributions that causes a person to exceed the $250,000 income threshold. For example, someone with a salary of a $230,000 and no other taxable income to record may receive employer super guarantee contributions of $27,600 (12% in 2025/26). The total Division 293 income would be recorded at $257,600 (i.e. $230,000 plus $27,600). This results in only $7,600 of the total concessional contributions exceeding the $250,000 threshold. An additional 15% tax will be levied against a figure of $7,600.

Further to this, an individual with a salary of $250,000 and employer contributions of $30,000 (12%) will be subject to Division 293 tax on all of the concessional contributions. The concessional contribution amount of $30,000 will be subject to 15% ordinary contributions tax across the year ($4,500.00) and an additional 15% ($4,500.00) under the Division 293 rules.

Conclusion

Division 293 is an additional 15% tax that applies against a level of concessional contributions. This tax reduces the concessions for those people with combined income and concessional contributions for Division 293 purposes of above $250,000.

One of the main considerations to reduce taxable income in a given year may relate to claiming allowable deductions. Planning can be key. If you would like further information on the rules or as it relates to your circumstances, please contact your adviser.

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