

Concessional Contribution

February 2024

Concessional Contributions

As we move closer to the end of the financial year, attention often turns towards personal tax planning. This is where the use of concessional contributions and even carry forward concessional contributions can be particularly useful. With income tax cuts beginning 1 July 2024 on the horizon, the flexibility afforded with the current rules are discussed within the below.

Concessional contributions are presently subject to a limit of \$27,500 per financial year, taxable to the fund at 15%. Concessional super contributions (also known as before-tax contributions) include employer super guarantee (SG), salary sacrifice and personal tax-deductible contributions.

A simple strategy for employees can involve voluntarily 'topping up' the concessional limit where the regular employer SG amounts land below \$27,500 per year.

Given the benefits of utilising this contribution cap is inherently linked to an individual's personal marginal tax rate relative to the 15% contributions tax; there may be extended periods where members use little of this cap (e.g. from being not employed, self-employed or through reduced work hours). Before July 2018, concessional contributions were subject to a 'use it or lose it' scenario. However, unused concessional cap amounts began accruing from 1 July 2018 under the carry forward rules.

This legislation allows super fund members to carry forward any unused concessional contributions on a rolling five-year basis.

The catch-up measures may provide opportunities in a variety of instances. For example, the sale of an asset may generate capital gains tax which can be offset through the use of eligible tax-deductible contributions in the corresponding income year. In addition, where disposable income arises as a result of reduced outgoings (such as mortgage payments or school fees), the use of catch-up contributions can boost the retirement nest egg.

Other important rules include the following:

- In order to make a catch-up concessional contribution, your total super balance (TSB) must be less than \$500,000 at 30 June immediately prior to the start of the current financial year.
- Contributions made in excess of the annual concessional cap are deducted from unused amounts from the earliest to the latest financial year.
- If aged 67 or over when the contribution is made, the member must meet the work test or be eligible from the work test exemption where claiming a personal tax deduction for the contribution.

Secondly, some observations that come into play for the remainder of the 2023/24 financial year are:

- Unused concessional contribution cap amounts from 2018/19 (being the first year of the scheme) will be lost if not used by 30 June 2024.
- The upcoming stage 3 marginal income tax cuts may incentivise individuals to undertake a tax-effective contribution this financial year as the deduction is worth more.

Lastly, it is worth noting the practical aspects of the use of these strategies:

- Individuals can check unused concessional cap amounts via myGov. The TSB is available on a separate screen.
- Prospective income can be salary sacrificed so arrangements should be formalised ahead of time.
- A personal deductible contribution should be followed by a valid Notice of Intent form within the required timeframes.

If you would like additional information about maximising your contributions or have any questions, please contact your adviser.

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