Superannuation Contribution Splitting

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In a perfect world, the superannuation balances of spouses would be fairly evenly matched, but often due to differences in work histories this isn't the case. Fortunately, there's a way to help equalise balances with a strategy known as superannuation Contribution Splitting.

How does it work?

Spouse super contribution splitting is where an individual opts to transfer concessional contributions from their account to the spouse's super account. It enables you to split up to 85% of your concessional contributions on an annual basis – it is important to note that concessional contributions include the 11% employer super guarantee, salary sacrifice amounts and tax-deductible contributions. The reason only 85% of the contribution can be split is that the 15% super contributions tax will be deducted before any split is made.

Assuming you make concessional contributions of $20,000 during the financial year, a maximum amount of $17,000 can be split. Splittable contribution amounts always counts towards the initial contributor's contribution limit.

You can elect to split your super in the financial year following the year in which the contributions are made, meaning that any concessional contributions made last financial year can now be split. But if you want to split personal contributions that you intend to claim a tax deduction for, you must give the initial super fund a 'Notice of Intent to Claim a Deduction for Personal Super Contributions' form before you implement the strategy.

A valid splitting application can only be made if the receiving spouse is:

- Under age 65, and
- If reached preservation age, not permanently retired.

Advantages

Contribution splitting can provide an effective way to build wealth for retirement for a non-working or low income spouse.

There are some other benefits to this strategy as it can assist in remaining under certain superannuation thresholds. It can ensure both spouses can potentially maximise their $1.9 million pension transfer balance cap at retirement. Furthermore, super splitting may also benefit someone with a younger spouse - transferring the contributions to their account may help the older spouse qualify for higher Centrelink Age Pension payments as the funds can be shielded against assessment.

A contribution splitting strategy can also be used to keep a total super balance under $500,000 so to remain eligible to use the concessional 'catch-up' provisions that allow individuals to perform unused contributions on a rolling five-year basis. On this front, it is possible to have a higher concessional contribution limit during a year if you are eligible to utilise the catch-up contribution rules and have done so. This leads to being able to spouse split over and above the usual $27,500 concessional limit in one hit.

If you need to know more or wish to discuss your situation further, please contact your adviser.

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