

Government Co-Contribution

July 2024

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With 2023/24 done and dusted and the new financial year upon us, it is a great time to review and kick start some financials goals. The new financial year brings income tax cuts under the rollout of the revised Stage 3 plan. In addition, the concessional and non-concessional contribution caps have lifted. However, how can low and middle income earners benefit their superannuation position in juggling the above? The government super co-contribution scheme provides an option. This is explored below.

Government co-contributions, available up to \$500, are a way to boost superannuation savings. This scheme was first introduced over 20 years ago.

Firstly, an individual must make personal non-concessional (after-tax) contributions into super. The government co-contribution received depends on income level and the amount of the after-tax contributions. Interestingly, you don't need to apply for the government co-contribution. When the annual tax return is lodged, the Australian Tax Office (ATO) will check off the amounts and perform payment directly into the super account.

Eligibility and Rules

The use of superannuation always comes with a set of rules. To be eligible for the super co-contribution, an individual must:

- Make personal after-tax contributions and lodge a tax return,
- Not have contributed more than the non-concessional (after-tax) contributions cap,
- Be less than 71 years old at the end of the financial year,
- Have a total super balance at previous 30 June less than the general transfer balance cap (\$1.9 million for 2024/25),
- Not hold a temporary visa at any time during the financial year (unless NZ citizen or prescribed visa), and
- Importantly, pass the two income tests (see section below).

For every after-tax dollar contributed up to \$1,000 per financial year, the government co-contributes 50 cents. The minimum co-contribution payment is \$20 and the maximum is \$500.

Income Tests

To satisfy what is known as the 10% income test, 10% or more of total income must come from either, or a combination of:

- Employment-related activities,
- Carrying on a business.

The maximum co-contribution can be achieved where non-concessional contributions of \$1,000 are made, and income falls at or below the lower threshold of \$45,400. As shown in the table, the maximum entitlement will reduce where income falls between the lower threshold and \$60,400.

Income	Personal Contributions	Co-Contribution
\$45,400 or less	Any amount	Personal contribution x 0.5 (maximum \$500)
\$45,401 - \$60,400	\$0 - \$1,000	Lesser of: 1. Personal contribution x 0.5, or 2. \$500 - [0.03333 x (income - \$45,400)]
\$45,401 - \$60,400	\$1,000 +	\$500 - [0.03333 x (income - \$45,400)]
Above \$60,400	Any amount	Nil

By way of example; an individual with a total super balance of \$350,000 has income of \$40,000 during the financial year and performs a \$750 non-concessional contribution before 30 June 2025. This voluntary super amount is not claimed as a tax deduction and therefore the contribution remains as an after-tax amount. The super co-contribution is \$375 due to the rules and thresholds.

Conclusion

Those on lower income tax tiers may not receive a sufficient tax benefit from making concessional (pre-tax) contributions to superannuation. Low and middle-income earners (including those who work casual or part time) may be eligible for a super contribution from the government (called a co-contribution) upon an after-tax super contribution strategy.

Lastly, preservation rules applying to super benefits also apply to the co-contribution payments.

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