

Making personal concessional contributions to save for retirement

Claiming a deduction for personal contributions to superannuation can be a tax-effective way of saving for retirement. These are known as ‘personal concessional contributions’.

Personal concessional contributions are made by a person contributing funds to their superannuation, advising their superannuation fund that they intend to claim a tax deduction, then claiming the deduction when they submit their tax return.

If you are employed, generally the more common method of making before tax contributions to superannuation has been to enter into a salary sacrifice arrangement with your employer. However making personal concessional contributions is another allowable option.

Some benefits to consider

Contributions into superannuation, when a tax deduction is claimed, are generally taxed at 15%¹. This may be lower than the marginal tax rate which applies to taxable income, including income earned from being self-employed or employed.

For the 2019/20 financial year, this potential tax saving applies so long as your total concessional contributions are less than \$25,000².

Considerations

Some considerations prior to making a personal concessional contribution to superannuation:

- Eligibility to make a voluntary contribution to superannuation. Broadly, individuals aged 18-65 are eligible, and those aged 65-75 are eligible if they satisfy the work test or the criteria to be exempt from the work test.
- Timeframes for notifying a superannuation fund of an intention to claim a tax deduction, and reflecting this in tax returns.
- If an employee, allowance for the fact that total concessional contributions include any compulsory superannuation guarantee and salary sacrifice contributions.

Also consider:

- Individuals won't be able to access amounts they contribute to superannuation until they meet a condition of release. Generally this occurs upon the earlier of either reaching age 65, or fully retiring after reaching preservation age (currently age 57, however this is increasing over time)³.
- The impact a personal concessional contribution will have on your cash flow, and whether you can afford this reduction.

¹ An additional 15% contributions tax applies to very high income earners, broadly those who earn more than \$250,000.

² Those who have a total superannuation balance of less than \$500,000 as at 30 June 2019 are also able to contribute an amount equal to their unused concessional cap from 2018/19. This is in addition to the standard \$25,000 for 2019/20.

³ Preservation age: <https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?page=11>

Example

During the 2019/20 financial year, Felicity (age 45) works as a sole trader. After business expenses she generates before tax income of \$104,000. Currently, Felicity is not making any contributions to superannuation.

For the 2019/20 financial year, the following table compares Felicity's current situation with an alternate scenario if she elects to make personal concessional contributions of \$10,400. Felicity may do so by contributing this amount as a single contribution prior to 30 June, or on a regular basis such as \$400 per fortnight.

	Current	With \$10,400 personal concessional contribution
Before tax sole trader income (after business expenses)	\$104,000	\$104,000
Personal concessional contribution	\$0	\$10,400
Income tax (Including Medicare)	\$27,397	\$23,029
Take home income	\$76,603	\$70,571
Total concessional contributions	\$0	\$10,400
Contributions tax	\$0	\$1,560
Net (post tax) contributions to super	\$0	\$8,840
Total tax payable	\$27,397	\$24,589

For the 2019/20 financial year, by making a personal concessional contribution of \$10,400:

- Felicity's after tax income has reduced by \$6,032 (\$76,603 - \$70,571),
 - Felicity's total tax liability reduces by \$2,808 (\$27,397 - \$24,589).
 - By forgoing \$400 per fortnight of her take home income, Felicity's total superannuation balance has increased by \$8,840, and
- For more information on tax-effective ways to save for your retirement, please speak to a registered financial or tax adviser.

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