

Super for low and middle income earners

Low and middle income earners may benefit from certain government super contributions, such as the super co-contribution or low income super tax offset (LISTO).

Where eligible, an individual doesn't need to apply for these payments. Both the super co-contribution and LISTO payments will automatically be made to the individual's super account.

What is the government super co-contribution?

Where a low to middle income earner makes a personal (after-tax) contribution to their super fund, the government may make a matching contribution (the co-contribution) of up to \$500 to their super account on their behalf.

There are certain criteria that must be satisfied in order for an individual to be eligible for the co-contribution, including an individual must lodge their income tax return for the relevant financial year and meet certain qualifying criteria based on their age, income, total super balance and total amount of super contributions.

To satisfy the income test, 10% or more of their total income for the year must come from employment related activities, carrying on a business, or a combination of both.

In addition, where an individual earns \$38,564 or less, the government will match \$0.50 for every \$1 in after tax contributions they make to super, up to the maximum of \$500. If an individual earns more than \$38,564, the matching rate reduces by 3.33 cents for every dollar they earn over \$38,564, until any co-contribution cuts out where they earn \$53,564 or more.

Example

Jasmine is currently studying and employed part-time earning \$23,000 per year. She has a total super balance of \$15,000 and chooses to make an after-tax contribution to super of \$600 in the 2019/20 financial year.

As Jasmine's total income is below the lower threshold of \$38,564, she will receive the full government co-contribution of $\$0.50 \times \$600 = \$300$, paid into her super fund on her behalf.

Example

Jarrold is working full time and currently earns \$47,000 per year. He has a total super balance of \$22,000 and chooses to make an after-tax contribution to super of \$1,000 in the 2019/20 financial year.

As Jarrold's total income is below the upper threshold of \$53,564 and above the lower threshold of \$38,564, he will receive a partial government co-contribution of $(\$0.50 \times \$1,000) - (\$0.0333 \times \$8,436) = \$219$, paid into his super fund on his behalf.

What is LISTO?

The LISTO assists low and middle income earners save for their retirement.

The LISTO is available to super funds based on the tax they have paid on concessional contributions made on behalf of low and middle income earners. To be eligible 10% or more of their total income for the year must come from employment related activities, carrying on a business, or a combination of both.

Individuals who make concessional contributions to super generally have these contributions taxed at 15%, which may be higher than the effective rate of tax the individual may have paid if they had taken the equivalent payment as income in their own hands.

As a result, eligible individuals earning less than \$37,000 may be eligible to receive a refund into their super account of up to \$500 for the tax paid on their concessional contributions.

Example

Amelia works part-time earning \$25,000 per annum. Her employer is required to pay her superannuation guarantee (SG) contributions of 9.5% of her salary, equivalent to \$2,375 per annum, into her super fund. These contributions would attract 15% tax when paid to her fund.

Once it is identified that Amelia meets the eligibility criteria for the LISTO, her super fund will credit her super account with an amount equal to the 15% tax she has paid on her concessional contributions ($15\% \times \$2,375 = \356).

Some things to consider

Prior to making any additional contributions to super, remember any contributions an individual makes will be preserved until they meet a condition of release.

Generally, the most common conditions of release occur upon the earlier of either reaching age 65, or fully retiring after reaching preservation age. Preservation age is currently age 57 or lower if an individual was born before 1 July 1962, however this age is increasing to age 60 over time. Another consideration is the impact any personal contributions made to super may have on an individual's cash flow, and whether they can afford to make any additional contributions to super.

Consideration should also be given to what impact any personal contributions made to super would have on an individual's cash flow, and whether they can afford to make the additional contribution to super.

For more information, speak to a registered financial or tax adviser.

For more information

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