

Making the most of CC's

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Concessional contributions are the base of super. Current rules mean your contribution limits are wasted if you don't use them each year. Are you making the most of your opportunities?

I hope nobody is holding their breath, waiting for the government to do something positive about concessional contribution limits.

The pressure for reform is growing; the limits are too low and need to be changed, lifted and/or fixed. And Superannuation Minister Bill Shorten seems to know that.

The murmurs are getting louder. Industry insiders are getting more hopeful, and the government has done nothing to hose down speculation. And the lack of a straight, outright “no” at the recent tax summit is some comfort.

In the meantime, we've got to work with what we've got – the current concessional contribution (CC) limits. Today, I'll give you a relatively simple guide to CCs and what you need to take into account when trying to make the most of your own CC limit (whether it's \$25,000 or \$50,000).

The information contained in this column should be treated as general advice only. It has not taken anyone's specific circumstances into account. If you are considering a strategy such as those mentioned here, you are advised to consult your financial adviser.

What are CCs?

Concessional contributions are contributions to super that have not been previously taxed at, generally, your marginal tax rate. As a result, they are taxed on their way into super. SG contributions are taxed at a flat rate of 15%. Your marginal tax rate is between 0% and 46.5%, depending on your overall taxable income.

The primary source of CCs are Superannuation Guarantee payments, which are the compulsory 9% super contributions made by employers for their workers.

However, concessional contributions are also made up of other types of contributions, including salary sacrifice contributions and deductible contributions for the self-employed.

CC limits

There are limits on the amount of money that can be contributed to superannuation in a tax-concessional sense.

The CC limit is, currently, \$25,000 for everyone. But, of course, there are exceptions – the main one being that if you are over 50 and able to make concessional contributions for the 2011-12 financial year, your limit is \$50,000.

Under the current rules, from July 1, 2012, everyone will be limited to concessional contributions of \$25,000 a year.

The government announced the “50-50-500 rule” in the 2010 federal budget. That is, if you are under 50, you can continue to contribute \$50,000 if you have less than \$500,000 in super. But, about 17 months later, we have no more meat on that bone and more questions than answers. (Given that, and that the policy is due to come into force in less than nine months, expect the policy to be either ditched or radically reformed.)

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Balancing act

So, let's assume we're working with a \$25,000 or \$50,000 limit. In many cases, people are working a balancing act between making the most of their CC limit. If you go over your CC limit, the excess contributions are taxed at the top marginal tax rate and become non-concessional contributions. That is, instead of being taxed at 15% they are taxed at 15% plus a further 31.5%, to make total taxation of 46.5%.

Clearly, it only makes sense to make excess concessional contributions and be taxed at 46.5%, if that would be your normal marginal tax rate anyway. That is, you're earning in excess of \$180,000 a year.

Combining SG and salary sacrificing

For most employees then, their total CCs will be made up of their 9% SG contributions plus their salary sacrifice contributions.

Let's say a 47 year-old is earning \$100,000. He will receive \$9000 in SG contributions from his employer. At his age, he can put a maximum of \$25,000 a year in CCs into super. If he wanted to salary sacrifice, he would therefore be left with a maximum of \$16,000 ($\$25,000 - \$9,000$) that he could salary sacrifice into super.

If he goes above that figure, he will pay total tax on his CCs of 46.5%, which is higher than his marginal tax rate of 38.5%.

If our employee earning \$100,000 was aged 50 or more this financial year, then he would have a CC limit of \$50,000. On top of his \$9000 SG employer contributions, he would then be able to salary sacrifice \$41,000.

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CC contribution strategies

Managing your CC cap is important on a number of levels. Most importantly, it's because of the strict limits associated with them. Often, getting money into super when you're in your 50s or early 60s, when the kids are off your hands the mortgage is paid down, is considerably easier.

But when you've got a still significant mortgage, it can be considerably harder to make the sacrifice.

If the new, lower, CC rules continue, getting money into super earlier is going to become crucial, no matter what your age.

The tricks

There are many tricks to getting the most into your super via CCs. Sometimes, you need to be wary of your employer and them trying to act according to their obligations rather than their moral duties.

Other times, it's simply trying to make sure that you get the most into super. What I recommend is to start each financial year with a plan to make the most of super contributions. In July each year, plan for how much you intend to contribute to super for the year. Take into account the 9% SG contributions from your employer and set yourself a weekly/fortnightly/monthly target for salary sacrifice contributions.

But it becomes really important to redo the numbers for this strategy in about April of each year. Call your super fund and find out how much has been contributed. Call your employer's HR/payroll department and find out exactly when contributions will be made towards the end of the financial year. This is particularly important for the final payment of the financial year, which employers don't have to make until

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July 28, but often make in June to get their own tax deduction.

Don't leave it to too late

Getting money into super later in life, when you can most afford to, is strictly limited ... and it's about to become more so.

Managing your CCs earlier in life – arguably at any stage of life – is becoming increasingly important, the lower that concessional contribution limits become.

When people are in their 50s, with the kids largely off their hands and when the mortgage is paid down, is too late to start making large contributions to super. Lower concessional contribution limits mean you won't be able to get enough in. People will have to start paying extra money into super from their early 40s, if not their late 30s.

Get professional help

It's not something to mess around with. Getting the most into super is partly about saving tax and partly about maximising your retirement funds. They are inextricably linked.

If the rules don't make sense to you, seek professional advice.

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