

Too much of a good thing?

Last year approximately 40,000 people contributed too much to their superannuation, with these excess contributions attracting up to 46.5% tax. While the Government encourages us to top up our super by offering a favourable tax environment for super contributions and earnings, it also sets a limit on the amount of contributions that can be made to your super. So it appears that too much of a good thing can be bad for you.

Don't get caught out by contributing too much to super – you might lose more than you gain. Here are some ways to optimise your contributions.

Concessional Contributions

- which include the 9% super guarantee, salary sacrificed amounts, other employer contributions
- Contributions over the limit attract a 31.5% penalty tax in addition to the 15% tax rate that applies to all concessional contributions
- By going over the limit you miss out on most of the tax benefits of making those contributions in the first place
- Most common mistake that investors make is not being aware of exactly what contributions count towards the cap or forgetting about the caps completely
- An investor on a substantial salary - the contributions comprised the 9% superannuation guarantee, salary sacrifice contributions and additional contributions made on his behalf by his employer to cover insurance premiums
- All these concessional contributions combined resulted in considerable excess contributions
- 'Set and forget' mentality – where you set up salary sacrifice arrangements and leave them in place for years – can also be dangerous
- For the 2009–10 financial year, the caps are half what they used to be
- The Australian Taxation Office (ATO) checked 2008–09 financial year information and wrote to around 300,000 people warning them.

It also pays to be aware that any excess concessional contributions are counted towards your non-concessional cap.

- It's not unknown for people to exceed both the concessional and non-concessional caps
- Could result in an effective 93% total tax on the contribution
- There is scope to appeal to the ATO if you exceed your contribution caps. It's a challenging process to go through.

Contribution caps for 2010 - 2011

Type of contribution	Age (in the financial year)	Limit for 2010-11
Concessional (before tax) 8	Under 50	\$25,000 pa (was \$50,000) indexed annually to AWOTE in \$5,000 increments
	50 and over	\$50,000 pa until 30 June 2012 (was \$100,000). From 1 July 2012, the indexed cap for under age 50s will apply to everyone
Non-concessional (after tax) contributions	Under 65	\$450,000 over a three year period, using the 'bring forward' rule
	65 and over	\$150,000 pa

People under age 65 at any time in a financial year may effectively bring forward two years' worth of entitlements of non-concessional contributions for that income year, allowing them to contribute a greater amount without exceeding their non-concessional cap.

Avoid the traps

Check contributions made to all of your super funds

It is common to have a personal super fund and a work super fund, so it's important to check the contributions for all funds. You may like to consider consolidating your super funds to make it easier to keep track of all your contributions.

Different ages for different contributions

Depending on your age and the type of contribution you are making, different limits apply.

Don't forget super guarantee contributions

Any contribution made to a super fund before tax, counts as a concessional contribution. This includes the super guarantee payments made by your employer and any salary sacrifice contributions you have made.

Take note of the date of contributions

If your salary sacrifice contribution was noted on your June payslip, it may not have actually gone into your super fund until July. Call your super fund to check.

Make sure the paperwork is right

If you make a personal deductible contribution to your super, make sure you include your deduction in your tax return, and that the figure you include matches the figure in the deduction notice submitted to your super fund.

Another way to boost your super

If you want to boost your super but are wary of the contribution caps, you should speak with your financial adviser.

Find out more

We recommend you speak to your tax adviser as these tips may not be relevant to your personal financial situation.

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Avery Gibson Financial Services Pty Ltd

Level 2, 54 Amelia Street, Fortitude Valley, Q 4006
PO Box 1223, Fortitude Valley, Q 4006
Ph: (07) 3252 9990 Fax: (07) 3257 7366
Email: admin@averygibson.com.au
Web: www.averygibson.com.au

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