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Personal super contributions

"Offset capital gains tax"

The strategy in a nutshell: By making a deductible contribution to superannuation, you can reduce your taxable income and therefore reduce your personal income tax liability. You may also be able to offset any personal income tax that would have been payable on any capital gains you made during the year.

If you've sold an asset during the year and realised a significant capital gain, by making a deductible contribution to super, you may be able to offset any personal income tax that would have been payable on that capital gain.

Complying super funds are concessionally taxed at a maximum of 15 per cent. Placing your money into super will increase the level of savings you'll have in retirement.

The strategy

Under this strategy, you may be able to claim a tax deduction for contributions made to your super fund.

To be eligible in the financial year ending 30 June 2008, you must be under age 75 and eligible to contribute.

- Individuals under age 65 are automatically eligible to contribute.
- Individuals aged between 65 and 74 are eligible if they were gainfully employed for at least 40 hours during a 30-day consecutive period during the year.

If you are receiving employer support into your super account (such as the guaranteed 9 % superannuation contribution), you will also need to satisfy the 10 per cent test.

The 10 per cent test

You will qualify under this test if, for the year ended 30 June 2008, your total assessable income from employment activities is less than 10 per cent of your total assessable income and reportable fringe benefits.

Who can use this strategy?

This strategy is available to individuals who are eligible to contribute to super and if relevant, satisfy the 10 per cent test.

Limitations and other considerations

If you qualify, you can make tax deductible contributions to super. However, there's a limit to the amount you can claim. For 2007-08 this is:

- $50,000 if you are under 50 at 30 June 2008 or
- $100,000 if you are 50 or over at 30 June 2008.

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The relevant limit covers all deductible contributions (now referred to as concessional contributions) made during the year. It is important that you ensure that it is not exceeded.

If your total concessional contributions exceed your limit, the extra contributions are taxed at an extra 31.5%.

While you will receive a tax deduction following the contribution and therefore a reduction in your personal tax liability, the contribution will be taxed at 15 per cent within the super fund. However, you should compare this to the income tax you would personally have paid if no deduction had been claimed.

Remember that you can't access the contributions until you are eligible to access your super savings.

Case study

Brenda (50) is self-employed. She has a taxable income of $150,000 and pays tax at 46.5 per cent including the Medicare levy. She recently sold an investment property for $350,000, realising a capital gain of $40,000. The table shows the tax savings Brenda could make by contributing $20,000 and $100,000 to her super fund.

	Contributing $0 to super	Contributing $20,000 to super	Contributing $100,000 to super
Brenda's taxable income before super and capital gain	$150,000	$150,000	$150,000
Taxable capital gain (after 50% discount)	$20,000	$20,000	$20,000
Personal tax deduction on super contribution		($20,000)	($100,000)
Taxable income	$170,000	$150,000	$70,000
Tax on capital gain	$9,300		
Total personal tax liability	$58,650	$49,350	$16,650
Tax in super fund on contribution		$3,000	$15,000
Total tax payable	$58,650	$52,350	$31,650
Overall tax saving		$6,300	$27,000

Contributing $100,000 allows Brenda to claim the maximum possible deduction and reduce her taxable income to $70,000, and her personal tax liability to only $16,650. She would also have contributed an additional $85,000 in superannuation towards her retirement planning needs.

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