

# Your \$50,000 super contribution: Use it or lose it

## The strategy in a nutshell

Super is still one of the most tax-effective means to save for your retirement. If you're over 50 and you aim to retire comfortably, you should take action soon to boost your retirement nest egg.

## THE STRATEGY

There's a limit to how much you and your employer can contribute to super before the Australian Taxation Office charges you excess contribution tax. If you're 50 or older, this limit for the 2010-11 and 2011-12 financial years is \$50,000 per year.

After this period the annual limit could halve to \$25,000<sup>1</sup>. With your ability to contribute without penalty potentially reduced, you may be running out of time to make the most of the current tax concessions.

## CASE STUDY

The table shows how tax-effective concessional super contributions totalling \$10,000 can be, depending on your marginal tax rate (including Medicare levy).

Tax rate (including Medicare levy)	Tax payable on \$10,000	Net amount in your pocket	Tax payable at 15% on \$10,000	Net amount invested in your super
31.5%	\$3,150	\$6,850		
38.5%	\$3,850	\$6,150	\$1,500	\$8,500
46.5%	\$4,650	\$5,350		

### The benefits illustrated: self-employed

Jim runs a small business and his marginal tax rate is 38.5% including Medicare levy. Jim has \$20,000 of business income that he can contribute to his super fund and claim as a tax deduction for the 2010-11 financial year. This will boost his super investment by a net amount of \$17,000 after paying 15% concessional tax.

If Jim didn't contribute the \$20,000 to super he'd pay \$7,700 in tax and would be left with just \$12,300.

### The benefits illustrated: salary sacrifice

Alice is 54, so for the 2011-12 financial year her concessional cap will be \$50,000. Alice arranges with her employer for a regular salary sacrifice of \$1,000 per fortnight starting from 1 July 2011. For the 2011-12 financial year her total salary sacrifice contribution will be \$26,000, a net contribution of \$22,100

As her marginal tax rate is 46.5% (including Medicare levy), if she takes the money as part of her salary she'll receive just \$13,910.

<sup>1</sup> The government has proposed that the \$50,000 concessional contribution limit continue to apply to those with less than \$500,000 in super. This has not yet appeared in legislation.

## THE END RESULT

The net amount you contribute is put straight to work as part of your investment strategy.

Let's say, for example, your super fund balance stands at \$200,000 and your marginal tax rate for the next two years is 46.5% (including Medicare levy). You make the full \$50,000 concessional contribution for the current and next financial year at the end of June, to your existing superannuation account balance of \$200,000.

If we assume your investment grows by 6% per year after tax and fees, the table shows the difference to your super balance at the end of 2012-13.

	Balance at year end with no concessional contributions	Balance at year end with \$50,000 concessional contribution for two years
2010-11	\$200,000	\$242,500 (\$200,000 + \$42,500)
2011-12	\$212,000	\$299,550 (\$242,500 x 6%) + \$42,500
2012-13	\$224,720	\$317,523

Your balance has grown an extra \$92,803 for an extra investment of just \$85,000. Add to this your potential total tax savings of \$31,500 over the two years and you're better off by \$39,903.

The more you invest now, the more your potential for further growth before you retire.

Concessional contributions are pre-tax super contributions that are taxed by your super fund at a concessional rate of 15%.

If you're employed, concessional contributions include your employer's compulsory Superannuation Guarantee contributions, and any salary sacrificed contributions that you arrange for your employer to deduct from your before-tax salary.

If you're self-employed, unemployed, or you receive less than 10% of your total income from an employer, you may be eligible to claim your concessional contributions as a tax deduction in your individual tax return.

Talk to your financial adviser today about how you can boost your retirement nest egg.