

Offset capital gains tax

...and reduce your 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 concessional tax at a maximum of 15 per cent. Placing your money into super can 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 2011, you must be under age 75 and eligible to make a personal contribution to super.

- 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 financial year.

If you derive some of your income from being an employee, 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 2011, less than 10 per cent of your total assessable income, reportable fringe benefits and reportable employer super contributions are derived from employment activities.

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 2010-11 this is:

- \$25,000 if you are under 50 at 30 June 2011, or
- \$50,000 if you are 50 or over at 30 June 2011.

The relevant limit covers all deductible contributions (now referred to as concessional contributions) made during the year. It is important you are aware that if your total concessional contributions exceed your limit, the extra contributions are taxed at an additional 31.5 per cent. It may also affect your ability to make non concessional contributions into super.

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 38.5 per cent including the Medicare levy.

She recently sold an investment property for \$350,000, realising a capital gain of \$40,000. The table compares the tax savings Brenda could make by contributing \$20,000 and \$50,000 to her super fund.

	Contributing \$0 to super	Contributing \$20,000 to super	Contributing \$50,000 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)	(\$50,000)
Taxable income	\$170,000	\$150,000	\$120,000
Tax on capital gain*	\$7,700	–	–
Total personal tax liability	\$53,400	\$45,700	\$34,150
Tax in super fund on contribution	–	\$3,000	\$7,500
Total tax payable	\$53,400	\$48,700	\$41,650
Overall tax saving	–	\$4,700	\$11,750

* At 38.5%

Contributing \$50,000 allows Brenda to claim the maximum possible deduction and reduce her taxable income to \$120,000, and her personal tax liability to only \$34,150. She would also have contributed an additional \$42,500 in superannuation towards her retirement planning needs.