NON-CONCESSIONAL CONTRIBUTIONS

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Non-concessional contributions are sometimes denoted as 'after-tax' or 'undeducted' contributions because taxes have already been paid or deducted from the funds used for these contributions.

There are two primary categories of non-concessional (after-tax) contributions:

1. Personal contributions, which you, as a member of a superannuation fund, make without claiming them as tax deductions in your income tax return. These are often referred to as 'voluntary' contributions and can take the form of either a significant lump sum or regular, smaller amounts deducted from your wages or salary.
2. Spouse contributions, which are made directly into your spouse's superannuation account. This can be a tax-efficient way for couples to save for retirement, particularly if one partner works part-time or has a lower income. Spouse contributions can help balance the superannuation savings of both partners and equalise their retirement income.

Benefits

- Investing in superannuation can enhance your savings to help you achieve your retirement objectives.
- Superannuation fund earnings benefit from a special concessional tax rate, while earnings from non-superannuation investments are generally subject to higher marginal tax rates.
- Your tax-free component within superannuation will grow, allowing you to withdraw it tax-free or pass it on tax-free to non-tax dependents, such as adult children, in case of your demise. This can increase the amount available to your family or estate.
- If you make non-concessional contributions and meet eligibility criteria, the government may provide a co-contribution on your behalf, the amount of which depends on your contributions and earned income during the year.
- If you make non-concessional contributions into your spouse's superannuation account, you might be eligible for a tax offset if your spouse's annual income falls below a specific threshold. The tax offset amount depends on your contribution and your spouse's income during the year.
- For individuals under Age Pension age (or under 60 if they are veterans), exemptions on superannuation assessment could increase entitlements from the Department of Human Services or Department of Veterans' Affairs.

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How it works

Starting from July 1, 2022, individuals aged 67 to 74 will not be required to fulfill the work test to make non-concessional contributions (NCC). However, those wishing to make taxable contributions for individuals in the 67 to 74 age group must continue to meet the work test, which involves working for at least 40 hours for remuneration over a 30-day period at least once during the year.

Non-concessional contributions are funded with after-tax income and include:

- Personal contributions without claiming an income tax deduction.
- After-tax salary directed into superannuation by your employer at your request.
- Spouse contributions.
- Contributions exceeding your capital gains tax (CGT) cap from business assets.
- Most transfers from foreign superannuation funds.

Non-concessional contributions exclude superannuation guarantee (SG) contributions, salary sacrifice, or certain contributions resulting from personal injury payments.

However, any excess concessional contributions retained in superannuation will count against your non-concessional contribution cap. Non-concessional contributions form part of the tax-free component of your superannuation account, which remains tax-free upon withdrawal, even if you are under the age of 60, subject to meeting preservation rules.

Non-concessional contribution cap (NCC Cap)

There is a limit on the annual amount you can contribute as a non-concessional contribution, and specific restrictions may apply based on your total superannuation balance. If you exceed your NCC cap, the excess contribution, along with associated earnings, may be withdrawn from superannuation within 60 days of the ATO determining the excess. Associated earnings will be included in your assessable income and taxed at your marginal tax rate. Failure to make the withdrawal election within 60 days will result in the excess contribution being taxed at the highest marginal tax rate.

These rules are intricate, so it is crucial to seek advice.

Bring-forward rule

If you are under the age of 75 on July 1 in a financial year and have a superannuation balance below the transfer balance cap, you may trigger the 'bring-forward' rule to make larger contributions. This rule is particularly useful when selling substantial assets, such as investment properties, and wanting to contribute the proceeds to superannuation.

The 'bring-forward' rule combines non-concessional contributions made over a three-year period, allowing you to bring forward two years' worth of non-concessional contributions and add them to the current year's cap. Once triggered, your non-concessional contribution cap will not be indexed for the next two years.

Contribution limits tend to change annually, so staying informed about the current rules and tracking past non-concessional contributions is important, as they can impact your contribution limits.

What you need to consider

- All superannuation contributions are preserved until you meet a condition of release, so ensure you won't need access to the contributed amount until you meet such conditions, like retiring after your preservation age.
- Exceeding your NCC cap can result in significant tax penalties.
- Retaining excess concessional contributions in superannuation affects your NCC cap, potentially reducing your capacity to make additional NCCs.
- If your total superannuation savings exceed the general transfer balance cap, you may not be eligible to make non-concessional contributions. Total superannuation savings encompass accumulation accounts, retirement income streams, in transit rollovers, and certain limited recourse borrowing arrangements in self-managed superannuation funds.
- Keep in mind that government superannuation legislation may change in the future.
- Be aware of any fees associated with your superannuation contributions, which can be found in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.

References

You may wish to refer to the following websites for further information about non-concessional contributions:

- www.moneysmart.gov.au
- www.ato.gov.au

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