Superannuation 101 (Part 2)

NIYATI KHANNA
CFP® Professional, CA, MBA
[Finance & Strategy]

[representative of Alman Partners Pty Ltd, Australian Financial Services Licence No: 222107]

Part 1 of the series introduced superannuation and the types of contributions, namely Concessional and Non-Concessional Contributions. In this article, let's talk further about Concessional Contributions.

Concessional Contributions are subject to a capped tax rate of 15%. The tax is deducted within the super fund before funds are invested in line with your investment option. For example, a contribution of $10,000 would have a contributions tax of $1,500 deducted and the balance figure of $8,500 will finally be invested.

A maximum contribution of $27,500 is allowed as a Concessional Contribution in a financial year. However, there may be some situations where subject to certain conditions being met, one could contribute additional funds in a financial year.

The Concessional Contributions may be comprised of your employer-mandated contribution (SGC), or you may choose to make a personal contribution and claim a tax deduction on it. You may also opt to salary sacrifice an amount on top of the employer contributions. Whilst the employer contribution won't impact your tax situation directly, a salary sacrifice arrangement or a personal Concessional Contribution could offer a tax benefit for you. For example, if your marginal tax rate was say 34.5% (inc. Medicare Levy) and you contributed $10,000 to super as a personal Concessional Contribution, your taxable income would reduce by $10,000 and you will no longer pay a tax of $3,450. Instead, the contribution of $10,000 would be taxed at 15% ($1,500) in your super fund. The effective tax paid would reduce by $1,950.

Although salary sacrificing or personal Concessional Contributions can be a great strategy for some it may not be appropriate for everyone, for instance, where one needs access to the funds or there is a competing need such mortgage repayments etc.

You should speak with your Financial Adviser to assess whether this is an appropriate strategy for you.