Understanding superannuation: the accumulation phase

Factsheet
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There are two phases to superannuation: the accumulation phase (when you invest funds as you are working) and the retirement or pension phase (when you can draw down on your super when retired). This factsheet covers the accumulation phase. For information on the retirement phase, see our factsheet 'Understanding superannuation: retirement and the pension phase'.

Superannuation is a compulsory savings system, established to enable Australians to fund their retirement. Subsequently, there are a number of tax benefits within superannuation making it an attractive savings pool compared to non-superannuation savings in retirement. To promote super as a long-term retirement savings vehicle as well as ensuring retirement savings are maintained, there are rules surrounding contributions and access to superannuation. Due to the deferred reward of superannuation it is commonly overlooked or unprioritised during a person's working life. Like summer bodies which are made in winter, for super to be in shape and optimal for your retirement days it needs to be nurtured and nourished well before then. After all, 9.5% of your income every year cumulatively and compounded throughout your entire working life is a fair sum of money worth getting excited about.

Tax benefits inside superannuation in a nutshell

The tax rate inside super is 15%. This is significantly lower than the individual income tax rate. Further, it also enjoys capital gains tax concessions, dividend franking credits and tax deductions so in reality, you could be paying well less than the 15% tax rate on your investment earnings inside super. In retirement, investments inside your super will continue to generate earnings, however it will be tax free and the income you draw from your super to fund your retirement is tax free.

There are a number of ways super contributions can be made to your super fund during your working life. Here, we will look at the different types of contributions, as well as the annual limits (caps) and taxes on those contributions.

Contribution types

Super guarantee contributions

If you are over 18, working and earning more than $450 per month, your employer must pay a **super guarantee** (SG) of 9.5% into your superannuation fund. This is invested on your behalf by your super fund and the investment earnings are added to your account. As with any income, these SG earnings are taxable, in this case, attracting a contributions tax of up to 15%.

Personal superannuation contributions

In addition to the SG, you can make **personal contributions** to super. These may be classified as concessional super contributions or non-concessional super contributions.

Concessional super contributions

These include superannuation salary sacrifice contributions and personal tax-deductible super contributions. SG contributions are also classified as concessional super contributions.

Superannuation salary sacrifice is where your employer contributes funds to superannuation from your gross (pre-tax) employment income. These contributions are taxed at 15% instead of your individual income tax rate, which could be as high as 47% (including Medicare levy).

A **personal tax-deductible contribution** is where you personally make a lump sum contribution into superannuation and claim the amount of the contribution as a tax deduction. The contribution will be taxed at 15%. The personal tax savings from this type of contribution are similar to the tax savings via super salary sacrifice.

Earnings on these contributions are taxed at up to 15% within the superannuation fund.

There are annual limits to your concessional contribution amounts, known as **superannuation contribution caps**. We cover how these may impact you later in this factsheet.

If you are over 65, then you must satisfy a work test to be eligible to make a personal super contribution. More information on the work test is provided further on.

Example 1: SG and superannuation salary sacrifice

Dr Sharon Jones earns $2,000 a week on a part-time basis and has an effective salary sacrifice agreement with her employer to sacrifice $250 to her superannuation fund each week. Dr Jones' salary only comprises of ordinary time earnings (OTE) amounts.

To meet SG obligations, Dr Jones' employer must contribute $190 to Dr Jones' super fund ($2,000 × 9.5%). This is in addition to the $250 Dr Jones salary sacrifices each week.

The salary sacrificed amounts are paid to Dr Jones' super fund each week under the salary sacrifice arrangement. However, the employer only needs to pay the SG contributions to Dr Jones' super fund by the applicable quarterly due dates.

The annualised SG contributions of $9,880 (52 weeks x $190) and annualised superannuation salary sacrifice contributions of $13,000 are classified as concessional super contributions. The combined annualised concessional contributions total $22,800, which is below the concessional cap of $25,000. The concessional contributions of $22,800 are taxed at 15% or $3,420 within the superannuation fund.

These concessional super contributions are invested within Dr Jones' superannuation fund and the investment earnings on these contributions are taxed at up to 15% in the accumulation phase of super.

Non-concessional super contributions

Contributions into superannuation can be made personally using your own funds. If you do not claim a tax deduction on a personal super contribution, then it will be classified as a non-concessional (after-tax) super contribution. This type of contribution is not taxed on entry into the fund, but earnings on these contributions are taxed at up to 15% within the super fund.

As with concessional super contributions, if you are over 65, you must satisfy a work test to be eligible to make a non-concessional personal super contribution, and annual contribution caps also apply.

The work test

You must meet a work test in order for the trustee of your super fund to accept your member contributions, or voluntary employer contributions if you are age 65 or over at the time of the contribution, but under the maximum age for that type of contribution.

The work test does not apply to members who, at the time of the contribution, are:

- under the age of 65
- age 65–74 and qualify for a work test exemption
- age 65 or over and are making downsizer contributions (see definition below).

You meet the work test if you have been gainfully employed for at least 40 hours in a period of not more than 30 consecutive days in the financial year.

Example 2: Non-concessional super contribution

Dr Sharon Jones has a bank account with $100,000 invested. She saved up these funds from her after-tax salary over the last few years. Dr Sharon Jones contributes $50,000 into her superannuation fund from this bank account as a personal super contribution. She does not claim a tax deduction on this contribution and it is classified as a non-concessional super contribution. There will be no super contributions tax applied on this type of contribution on entry to the super fund. However, the earnings on this contribution will be taxed at up to 15% each year, which is a lower tax rate than if the earnings were generated in Dr Jones' individual name and taxed at her individual income tax rate of 39% (including Medicare levy).

Superannuation contribution caps

Concessional contribution caps

Concessional contributions are subject to an annual cap, or limit. From 1 July 2017, the general **concessional contributions cap** is $25,000 for all individuals regardless of age.

From 1 July 2018, you can 'carry-forward' concessional super contributions if your **total superannuation balance** (TSB) is less than $500,000. This means you are able to access your unused concessional contributions caps on a rolling basis for five years. Amounts carried forward that have not been used after five years will expire.

Your TSB is the total of your accumulation and pension super at the end of each financial year.

Example 3: Catch-up concessional contribution

Dr Sharon Jones had a TSB of less than $500,000 as at 30 June 2019. Dr Jones' concessional contributions in the 2018–19 financial year totalled $10,000, resulting in an unused concessional cap amount of $15,000 for the 2018–19 financial year.

Dr Jones may carry forward her unused concessional cap amount of $15,000 from the 2018–19 financial year to the 2019–20 financial year. When combined with her standard concessional cap of $25,000, Dr Jones' total concessional contributions in the 2019–20 financial year could be up to $40,000 ($15,000 + $25,000).

Non-concessional contribution caps

The non-concessional contributions cap is $100,000 per annum.

Your eligibility to make non-concessional super contributions is dictated by your TSB as measured on 30 June each year. If your TSB exceeds $1.6 million, you will not be eligible to make any non-concessional super contributions for the following financial year. For example, if your TSB was $1.7 million as at 30 June 2019, you will not be eligible to make a non-concessional super contribution in the 2019–20 financial year.

If you are under 65 years, you can bring two financial years of limits forward and contribute up to $300,000 in a single financial year. The amount you can contribute under the bring-forward provisions is dictated by your TSB as per the table below:

Total superannuation balance (TSB)	Contribution and bring-forward available
Less than $1.4 million	Access to $300,000 cap (over three consecutive years)
Greater than or equal to $1.4 million and less than $1.5 million	Access to $200,000 cap (over two years)
Greater than or equal to $1.5 million and less than $1.6 million	Access to $100,000 cap (no bring-forward period, general non-concessional contributions cap applies)
Greater than or equal to $1.6 million	Nil

Downsizer contribution

If you are over 65, you can make a **downsizer contribution** of up to $300,000 (per person) from the proceeds of selling a qualifying dwelling. The downsizer contribution does not form part of the non-concessional cap and the contribution can still be made regardless of your TSB. However, it would need to be considered for the **transfer balance cap**, which is the limit you can roll over from accumulation super to the tax-free retirement phase, currently $1.6 million.

The eligibility criteria to make this contribution are listed below:

- The contribution must be in respect of the proceeds of the sale of a qualifying dwelling in Australia that either the individual or their spouse owned for at least 10 years up to the disposal.
- The disposal of the dwelling must have qualified (or would have qualified) for the main residence capital gains tax (CGT) exemption in whole or part.
- The contribution must be made within 90 days of the disposal of the dwelling, or such longer time as allowed by the Commissioner of Taxation.
- You must choose to treat the contribution as a downsizer contribution and notify your superannuation provider of this at the time the contribution is made.
- You cannot have had downsizer contributions in relation to an earlier disposal of a main residence.

Accessing your super before you retire

Preservation rules

As superannuation is principally designed to fund your retirement, you can only access it under certain rules called preservation rules, which relate to conditions under which you are deemed retired. To be classed as retired, you must be fully retired from the workforce and at least meet preservation age. Your **preservation age** depends on your date of birth, as outlined in the table below:

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
After 30 June 1964	60

Condition of release under special circumstances

In special circumstances you can access some or all of your superannuation prior to retirement and your preservation age, where a condition of release is met.

Conditions of release include (but are not limited to):

- Permanent incapacity
- Severe financial hardship
- Compassionate grounds
- Terminal illness
- First home super saver scheme.

Should you feel you need to access your super upon any of these grounds, it is best to speak with your financial adviser in greater detail.

Taxation on withdrawal of super

Superannuation is made up of three components: the tax-free component (monies already taxed), the taxable (taxed) component (concessional contributions and earnings) and the taxable (untaxed) components (concessional contributions in an untaxed fund). When you access your super, these components are taxed in the following ways:

Component	Age	Tax treatment
Tax free	Any	Entirely tax free, not treated as exempt income or assessable income
Taxable (taxed)	Under preservation age	20% + Medicare levy
	Preservation age to age 59	The full amount is assessable as income; however, a tax offset is applied to limit the tax liability: • Up to low rate cap ($210,000 in 2019–20) – nil • Over low-rate cap – 15% + Medicare levy
	Over 60	Tax-free
Taxable (untaxed)	Under preservation age	30% maximum tax rate up to $1,515,000
	Preservation age to age 59	15% tax up to $210,000 30% maximum tax rate up to $1,515,000
	Over 60	15% up to $1,515,000

Division 293 of Income Tax Assessment Act 1997

This is an additional tax of 15% on concessional super contributions on taxpayers whose combined income and concessional super contributions exceed $250,000.

If your division 293 income plus your division 293 super contributions exceed the division 293 threshold, you are taxed at 15% on either your contributions, or the amount that is over the threshold – whichever amount is lower.

Division 293 income is similar to the calculation for income for Medicare levy surcharge purposes. This information is collected from your income tax return.

The components of this income calculation are:

- taxable income (assessable income minus allowable deductions)
- total reportable fringe benefits amounts
- net financial investment loss
- net rental property loss
- net amount on which family trust distribution tax has been paid
- super lump sum taxed elements with a zero-tax rate.

These amounts are added up (except the super lump sum amount, which is subtracted) to give the income amount.

Example 4: Division 293 income

Dr Riley reports the following amounts on his income tax return:

- taxable income of $215,000
- total reportable fringe benefits of $10,000, and
- net amount on which family trust distribution tax has been paid of $15,000.

This gives Dr Riley an income component for division 293 tax purposes of $240,000.

Division 293 super contributions equal an individual's concessional contributions minus any excess concessional contributions. The concessional contributions counted for division 293 tax purposes generally include:

- employer-contributed amounts
- other family and friend contributions
- assessable foreign fund amounts
- assessable amounts transferred from reserves
- personal contributions for which you have been allowed a deduction
- defined benefit contributions.

These contributions are concessionally taxed at 15% within the super fund.

Example 5: Division 293 super contributions

Dr Riley is self-employed and makes a personal super contribution of $15,000 which he claims a tax deduction on. No other super contributions were received by his super fund for the relevant financial year.

Dr Riley's division 293 super contributions are $15,000.

Example 6: Division 293 tax

Following on from examples 4 and 5, Dr Riley has division 293 income of $240,000 and division 293 super contributions of $15,000.

Dr Riley's division 293 taxable contributions are the lesser of division 293 super contributions ($15,000) or the amount above the $250,000 threshold ($5,000).

Dr Riley's division 293 tax payable is 15% of $5,000.

Dr Riley's division 293 tax payable is $750.

Get advice that suits your situation

Growing your super, while minimising tax implications, can be complex. The team at Doctors Wealth Management can review your situation and recommend a solution for your individual circumstances.

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