Superannuation year end planning for 2014

The end of the financial year always seems to crop up faster than it should. Understanding what you could do before and after 30 June 2014 can provide the icing on the cake for employees, investors and those in small business. Such things as bringing forward tax deductions or delaying the receipt of income within the rules can mean less tax this year. When it comes to superannuation, make sure you maximise the tax deduction this year or salary sacrifice the right amount so you get the best possible outcome and don't end up with tax penalties.

Increased tax deductible contributions cap for anyone 60 and above

For anyone who is under age 60 this financial year the maximum amount of tax deductible contributions that can be made to superannuation without penalty is $25,000. However, for anyone age 60 and above the maximum amount is $35,000. These contributions include amounts you may make as salary sacrifice, Superannuation Guarantee or personal deductible contributions, if you qualify. If you wish to maximise your contributions before June 30 make sure you talk to your professional adviser so that your salary sacrifice agreement with your employer allows the maximum to be salary sacrificed.

If you are older than 65 you will need to meet a work test to contribute to super in most cases. You will need to work for at least 40 hours during 30 consecutive days at any time during the financial year to make tax deductible and non-deductible contributions to super.

Claiming a tax deduction for personal superannuation contributions

If you are self-employed, an investor, in receipt of a pension and receive less than 10% of your income, fringe benefits and other related payments from employment you may qualify for a personal tax deduction to superannuation. If you intend to claim a tax deduction make sure you are eligible to claim a tax deduction and seek advice if you are unsure. You need to notify the fund of the amount you wish to claim as a deduction before the end of the next financial year, that is, before 30 June 2015. Make sure you keep all relevant paperwork to save stress when the time comes to see your accountant or tax agent.

Making after tax contributions to super

You can make after tax contributions to super which could come from your personal savings, transferring personal investments, an inheritance or from the sale of investments. This financial year the maximum personal after tax contribution is $150,000, however, if you are under 65 you can contribute up to $450,000 over a three year period. This allows you to make substantial contributions to super and build up your retirement savings. The way it works is that if you are under 65 and make total after tax contributions of more than $150,000 in a financial year the bring forward rule is triggered. This allows you to make non-deductible contributions of up to $450,000 in total over a fixed three year period commencing in the year in which you contributed more than $150,000.

This may sound like a real bonus, however you need to make sure you don't exceed the after tax contribution caps because there may be penalty tax payable. This could be as high as 46.5%.

From 1 July 2014 the after tax contributions cap increases to $180,000 which means if you trigger the bring forward rule that a total of $540,000 can be contributed over the fixed three year period. One trap that may occur is if you trigger the bring forward rule before 30 June, the maximum amount will be $450,000 for the fixed three year period. Your professional adviser will be able to help you if you find yourself in this position.

Beware of excess contributions tax

Anyone making large superannuation contributions should exercise extreme care for any type of contributions to avoid excess contributions penalties. This can apply to any tax deductible and non-tax deductible contributions made to super. The maximum amount of tax payable can be up to the maximum tax rate of 46.5% plus additional penalties.

Government co-contribution

If your adjusted income is less than $48,516 you may like to take advantage of the Government co-contribution. You can do this by making after tax (non-concessional) super contributions before the end of the financial year. For every dollar of contributions that are eligible, the Government contributes 50 cents to your superannuation up to a maximum government co-contribution of $500. For 2013/14, the maximum government co-contribution is payable for individuals on incomes at or below $33,516 and reduces by 3.33 cents for each dollar above this, cutting out completely once an individual's total income for the year exceeds $48,516.

Drawing superannuation pensions

If you are in pension phase make sure the minimum pension has been paid to you for this financial year. By not receiving the required minimum pension any income earned on your pension investments in your superannuation fund will be taxed at 15% rather than being tax free if the pension rules are met by the fund.

Drawing superannuation lump sums

Once you reach 60 all lump sums from superannuation are tax free. However, before age 60 any lump sums that include a taxable component can be taxable. The taxable component includes the tax deductible contributions plus any income that has accumulated on your superannuation benefit. No tax is payable on taxable amounts of up to $180,000, in total, you receive prior to age 60. This amount is indexed annually.

If you are eligible to draw amounts from superannuation you may like to defer receiving the amount until after reaching age 60 or until a later financial year when you may end up paying a lower rate of tax.

SMSF fund expenses

For SMSF members in the accumulation phase, tax deductions for expenses are usually not significant, but it's important to ensure expenses are actually incurred or paid before 30 June to be deductible in the current financial year.

How can we help?

If you need assistance with any aspect of your end of year superannuation tax planning, please feel free to give me a call to arrange a time to meet so that we can discuss your particular requirements in more detail.