Catching up on superannuation contributions

Individuals with a total superannuation balance (TSB) below $500,000 are now able to “carry forward” their unused concessional contributions (CC) cap space to future years in order to catch up on contributions later when they have the capacity to do so. Usually, an individual’s CCs are capped at $25,000 per financial year, and exceeding the cap will generally attract an excess contributions tax penalty. CCs include:

* compulsory superannuation guarantee (SG) contributions;
* additional salary-sacrifice contributions made by your employer; and
* personal contributions you make yourself from your after-tax income for which you claim a deduction. Anyone under the age of 75 is now entitled to claim a deduction for personal contributions.

The new “catch-up” scheme allows eligible individuals to carry forward unused CC cap amounts on a rolling basis over five years. This means that if you do not use up all of your cap in one financial year, the unused amount can be carried forward and utilised in a future year for up to five years, allowing you to contribute more than the annual cap without penalty.

The 2018–2019 financial year is the first year in which individuals can accumulate and carry forward unused cap space, which means the 2019–2020 financial year will be the first year in which individuals can start to make additional catch-up contributions. To be eligible to make a catch-up contribution (ie above the usual annual CC cap), the person must have had a TSB below $500,000 before the start of the financial year in which they wish to make the contribution.

How might this work in practice?

To utilise unused cap space from earlier years, an individual must have the capacity to fund the catch-up contribution. Some ways in which a person with prior unused cap space might be able to contribute more than $25,000 in a financial year include:

* Making additional salary-sacrifice contributions, particularly for higher income earners who have not yet accumulated $500,000 in superannuation. Once someone reaches annual earnings of $216,120 per annum (which yields around $20,531 p.a. in compulsory SG contributions), their employer is not required to make further SG contributions. However, some workers, including many who earn well under $216,000 p.a., choose to salary-sacrifice additional amounts all the way up to their CC cap of $25,000.
* Contributing an inheritance or windfall, or some other source of surplus funds.
* Contributing proceeds from the sale of an asset. It is important to remember, however, that selling an asset may have immediate tax consequences, and selling the family home in particular could affect the person’s entitlement to the Age Pension.

Anyone considering these strategies will need to ensure the contributions make sense for their particular circumstances from a tax and financial viewpoint. Individuals aged 65 or over will also need to meet the work test in order to make voluntary CCs (subject to an exception for certain eligible recent retirees).

Start thinking ahead now

If you have fluctuating income and you would like to explore the possibility of utilising unused CC cap space in future years, talk to us today. Catch-up contributions can form part of an overall contributions strategy designed to boost your retirement savings in a tax-effective manner.

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