

How can you make personal concessional contributions to save for retirement?

Claiming a tax deduction for personal contributions to superannuation can be a tax-effective way of saving for retirement. These are known as 'personal concessional contributions'.

Personal concessional contributions are made by a person contributing funds to their superannuation, advising their superannuation fund that they intend to claim a tax deduction, then claiming the deduction when they submit their tax return.

If you are employed, generally the more common method of making pre-tax contributions to super is to enter into a salary sacrifice arrangement with your employer. However, personal concessional contributions is another option.

Who does this suit?	It works like this
<ul style="list-style-type: none"> - Those who are self-employed - Those who do not have access to salary sacrifice arrangements 	<p>Contributions into superannuation, when a tax deduction is claimed, are generally taxed at 15%¹. This may be lower than the marginal tax rate which applies to taxable income including income earned from being self-employed.</p> <p>For the 2020/21 financial year, this potential tax saving applies so long as your total concessional contributions are less than \$25,000. From 1 July 2019 if an individual has a total superannuation balance of less than \$500,000 as at 30 June of the previous financial year, they may be entitled to contribute more than the general concessional contributions cap and make additional concessional contributions for any unused amounts. These amounts are available for a maximum of five.</p>



Top tip

Prior to making a personal concessional contribution to superannuation, an individual should ensure that:

- They are eligible to make a voluntary contribution to superannuation. Broadly, those aged between 18-66 are eligible, and those aged between 67-74 are eligible if they meet a work test.
- Within an allowed timeframe, they advise their superannuation fund of their intention to claim a tax deduction, and their tax return reflects this election.
- If they are an employee, they allow for the fact that their total concessional contributions include any compulsory superannuation guarantee and salary sacrifice contributions.

Also consider:

- Individuals won't be able to access amounts they contribute to superannuation until they meet a condition of release. Generally, this occurs upon the earlier of either reaching age 65, or fully retiring after reaching preservation age².
- The impact a personal concessional contribution will have on their cash flow, and whether they can afford this reduction in their disposable income.

¹ An additional 15% tax may apply to higher income earners.

² Preservation age: <https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?page=11>

Example

How can Felicity who is 45 years old and works as a sole trader, generating a before tax income of \$104,000 make personal concessional contributions to save for retirement?

The following compares two scenarios for Felicity:

1. Not making any contributions to superannuation	Her superannuation balance will not benefit from receiving contributions.
2. Making a personal concessional contribution	She elects to make personal concessional contributions of \$10,400 for the financial year. Felicity may do so by contributing this amount as a single contribution prior to 30 June, or on a regular basis such as \$400 per fortnight.

	1. Not making contributions to super	2. Making a personal concessional contribution
Before tax sole trader income (after business expenses)	\$104,000	\$104,000
Personal concessional contribution	\$0	\$10,400
Income tax (Including Medicare)	\$25,687	\$21,787
After tax income	\$78,313	\$71,813
Total concessional contributions	\$0	\$10,400
Contributions tax	\$0	\$1,560
Net (post tax) contributions to super	\$0	\$8,840
Total tax payable	\$25,687	\$23,347

For the 2020/21 financial year, by making a personal concessional contribution of \$10,400:

- Felicity's after tax income has reduced by \$6,500 (\$78,313 - \$71,813).
- By forgoing \$400 per fortnight of her take home income, Felicity's total superannuation balance has increased by \$8,840, and
- Felicity's total tax liability reduces by \$2,430 (\$25,687 - \$23,347).



Need help

For more information on how to make personal concessional contributions please speak to me.
