Concessional Contributions

Concessional contributions are contributions made to a super fund that are not treated as a non-concessional contribution.

They include contributions made by an employer on behalf of an employee including the 10.5% super guarantee contributions, and contributions made under an effective salary sacrifice arrangement.

Personal contributions may also be treated as concessional contributions where the person making the contribution claims a personal tax deduction for their contribution.

Contributions made for the benefit of another person, including contributions made for relatives (other than a spouse) and children over the age of 18, are treated as concessional contributions, whether or not the person making the contribution is eligible to claim a tax deduction for the contribution. For example, a contribution made by a grandparent on behalf of a grandchild will generally be treated as a concessional contribution.

Eligibility to contribute

Concessional contributions can be made for or on behalf of a person under age 75 regardless of whether they work or not.

Where a person aged 67 to 75 intends to claim a tax deduction for their personal contributions, they will need to have met a work test in the year of contribution. However, a person aged from 67 to 75, intending to claim a tax deduction for their personal contributions may contribute in the year following that in which they last met the work test, provided their total superannuation balance at the end of the previous financial year was less than $300,000.

The work test requires a person to have been gainfully employed for at least 40 hours worked within a 30 consecutive day period in the financial year in which the contribution is to be made. It is customary for the work to have been done before the contribution is made.

Concessional contributions cannot generally be made after the 28th day of the month following that in which a person turns 75. There is one exception to this age limit. Mandated employer contributions (e.g. super guarantee contributions) can be made irrespective of age.

Taxation of concessional contributions

Concessional contributions are treated as assessable income of the super fund to which they are made. They are taxed within the fund at a rate of 15%.

High income earners – people with an income of more than $250,000 per annum – pay an additional tax of 15% on their concessional contributions. This is referred to as Division 293 tax and is levied on the taxpayer personally, rather than on their super fund.

Income for Division 293 purposes includes [taxable income + amounts subject to family trust distribution tax + reportable fringe benefits + net investment losses + 'low tax contributions' – the low rate part of a super lump sum received by a taxpayer under 60 but who has reached preservation age.]

Low rate contributions are concessional contributions within the concessional contribution cap. It excludes excess contributions.

Contribution Cap

There is a limit of the amount of concessional contributions that may be made in a financial year. This is referred to as the concessional contribution cap. This is currently $27,500 per annum.

Excess concessional contributions

Where the concessional contribution cap is exceeded, the Australian Taxation Office will issue an excess concessional contribution determination. The determination will include details of the excess concessional contribution, together with an excess contribution charge where the excess contribution arose before 1 July 2021. Excess contributions, together with the excess contribution charge, may be released from super provided the individual makes an election within 60 days of receiving the determination. Where an election is made, the Australian Taxation Office will issue a release authority allowing the excess to be withdrawn from super. The withdrawn amount is remitted by the super fund to the Australian Taxation Office. The excess contributions are taxed at the taxpayer's marginal tax rate. A non-refundable 15% tax offset is applied to offset the tax already paid by the super fund. Any remaining amount, after deducting relevant tax, will be returned to the taxpayer.

Excess contributions not withdrawn from super are counted against a person's non-concessional contribution cap.

Responsibility for tracking the level of contributions rests with the member of the fund, and not with their super fund.

Where any doubt exists regarding contributions made to super (including premiums paid for life insurance policies held through super) details should be checked with the super fund or financial adviser before making further contributions. Details of concessional contributions can also be found by checking an individual's My.Gov account.

Carry forward of unused cap

From 1 July 2018, the unused portion of the concessional contribution cap that accrues from 1 July 2018 may be carried forward for a period of up to 5 years. This measure only applies to those people with a total superannuation balance of less than $500,000.

Salary sacrifice arrangements

The Australian Taxation Office has set out its requirements for an effective salary sacrifice arrangement. The basic requirements for a salary sacrifice arrangement to be effective include:

- The arrangement must be established before any work is performed that gives rise to remuneration. An arrangement established after work has been done may be regarded as ineffective.
- There must be an agreement in place between the employer and employee. Preferably the agreement should be in writing.

The sacrificed salary must be permanently forgone for the period of the agreement.

Low income superannuation tax offset (LISTO)

Where a person has adjusted taxable income of less than $37,000 the government will refund the contributions tax on the first $3,330 of concessional contributions. This provides a refund up to $500 per year. This is paid automatically to the super fund to be credited to the person's super account.

To qualify for LISTO, at least 10% of total income must be derived from employment or self-employment.

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