You can now get a deduction for personal contributions

Make the most of your super

If your employer doesn't offer salary sacrifice or you want more flexibility, you can now claim a tax deduction on your personal contributions.

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Among the many changes to super introduced on 1 July 2017 was the removal of the "10% rule". What is the 10% rule? Under this rule, you could only claim a tax deduction for personal contributions if you earned less than 10% of your income from eligible employment. This rule excluded most employees from claiming a tax deduction for personal contributions to super.

But this changed on 1 July. From this date, you can make personal contributions from your after-tax income and claim a deduction for them regardless of how much you earn from salary and wages.

Salary sacrifice can be a smart strategy, but ...

While salary sacrifice can be a great way to build your super, not all employers offer it. And for those working casually or with irregular work patterns, salary sacrifice does not offer the flexibility to alter their contribution amount from pay period to pay period.

In a salary sacrifice arrangement, you ask your employer to pay part of your pre-tax salary to your super fund rather than paying it—and taxing it—as salary. This reduces your assessable income and with it, the amount of tax you pay.

Salary sacrifice contributions are taxed at a maximum of 15% by your super fund, which is usually less than the tax you pay on income. For many people, salary sacrifice can be beneficial because you effectively reallocate what would otherwise be paid in tax to your super account.

That's all fine as long as your employer offers salary sacrifice arrangements. But as we've said, not all employers do.

As you can see below, from a tax and super viewpoint, a personal deductible contribution has the same net effect as salary sacrifice.

Outcome	**Salary sacrifice**	**Personal deductible contribution**
Salary	$80,000	$80,000
Salary sacrifice	$15,000	-
Personal deductible contributions	-	$15,000
Taxable income	$65,000	$65,000
Tax payable in 17/18 (including Medicare levy)	$13,947	$13,947
Concessional contribution (excluding super guarantee)	$15,000	$15,000
Contributions tax	$2,250	$2,250

Even if you *can* make salary sacrifice contributions, this may not always be your best option. For example, your employer might calculate your 9.5% superannuation guarantee (SG) entitlement on your salary *after* salary sacrifice contributions have been deducted, which means you will have a lower SG payment.

After 1 July, instead of salary sacrificing, you could make tax-deductible contributions and have your SG payments based on your full salary.

Concessional contributions cap

From 1 July 2017, there is a cap of $25,000 on the amount of concessional contributions you can make each year. Concessional contributions include SG, salary sacrifice and personal deductible contributions.

Employers are not responsible for monitoring this cap, so it's up to you to make sure you do not exceed it. If you're trying to contribute the maximum, irregular pay patterns, together with salary increases and bonuses, can make this harder. If you're not on top of your running contributions total, salary sacrifice arrangements could inadvertently push you over the cap and mean extra tax.

Personal deductible contributions offer an alternative

A personal deductible contribution made towards the end of the financial year is much less likely to create an excess concessional contribution problem because existing SG payments can be factored in when calculating how much you can contribute.

It also means you can make one lump sum contribution towards the end of the financial year rather than regular salary sacrifice contributions. This might work better if you're working casually or have several different jobs.

If you want to claim a deduction, you will need to complete and send us a Notice of intent to claim or vary a deduction for personal super contributions. We will confirm we have received your notice, and you will need this acknowledgement for your next tax return.

Salary sacrifice may not work for everyone but until now, there hasn't really been an alternative.

> **The removal of the 10% rule from 1 July 2017 opens the way for most of us to make personal deductible contributions, which could get around some of the restrictions and drawbacks of salary sacrifice.**

Furthermore, those who may not want to commit to salary sacrifice can choose to make personal deductible contributions at the end of the financial year when they have a better idea of their financial position.

→ **Show me how I can make a personal contribution**

Salary sacrifice or personal deductible?

	For	Against
Salary sacrifice	Set and forget – once you've set it up it up you don't need to do anything else You receive the tax benefit now as part of your take-home pay.	It can be harder to know how close you are to your concessional contribution cap. More difficult to put in place if you have irregular pay patterns because you work casually or several jobs. You may receive a lower SG payment from your employer, if they calculate this based on your reduced salary.

Personal deductible	Flexibility to decide on the amount you want to claim as a deduction at the end of the financial year. Especially good if you are close to, or trying to make the most of, your concessional contribution cap. Your salary is not reduced for purposes of calculating your SG contributions. Available to employees even if salary sacrifice is not offered by the employer.	You will need to claim the deduction by notifying your super fund and add it into your tax return each year. There is a delay in receiving the tax benefits until after you have included the details in your tax return and received the refund from the ATO.

What to do now

If you're currently in a salary sacrifice arrangement, you might want to think about whether claiming a tax deduction for personal contributions suits you better. If so, you should talk to your employer about unwinding your salary sacrifice arrangements.

If you're not sure and would like to discuss the new rules, you can talk to one of our financial advisers.

→ **I want advice on my contribution options**

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