

Contributions splitting

Fact sheet – May 2020

Splitting contributions may enable you to build super with your spouse and reduce tax.

Contributions splitting

Super contributions splitting generally allows you to split up to 85% of your employer super contributions and personal deductible contributions with your spouse.

What's in it for me?

- Boost the super balance of your spouse and grow your retirement savings as a couple.
- Earlier access to super benefits and tax concessions if your spouse is older than you.
- Funding insurance through super for your spouse.
- Optimise super benefits by utilising two low rate caps for lump sum taxable withdrawals between preservation age and age 60.

Who can this strategy work for?

Contributions splitting may be suitable if you:

- pay a higher marginal tax rate than your spouse, and wish to fund insurance cover for your spouse through super
- have a spouse eligible to receive super contributions
- have a spouse who can access super before you
- want to boost your spouse's super savings
- have or expect to have \$1.6 million or more in super but not your spouse.

How does it work?

Generally, contributions splitting works on an 'annual split' basis. This means, once a year, you may be able to apply to your super fund to request to split eligible contributions made in the previous financial year with your spouse. Generally you need to apply before 30 June of the following financial year to request to split contributions in the previous year.

The splitting of contributions from your super to your spouse's super will be treated as a contributions-splitting super benefit. Eligible contributions you split in favour of your spouse will not count towards your spouse's concessional contributions cap.

This is because the contributions, when originally paid into your fund, were assessed against your own concessional contributions cap.

Personal deductible contributions are contributions you make to your super for which you can claim a tax deduction.

Case study – meet Erica and Steve

Erica and Steve are both 57 years of age. Erica works as a graphic designer earning \$110,000 p.a., while Steve has just retired. Erica has made additional salary sacrifice contributions into super over the years and accumulated an extra \$250,000 in her account (taxable component).

Erica now plans to retire and use the \$250,000 super benefit to pay for a property purchase. As Erica is under 60 years of age she pays tax on the withdrawal. Amounts from the taxable component up to the 'low rate cap' of \$210,000 (2019/20) are taxed at a zero rate of tax, but the balance of \$40,000 is taxed at 17%, or \$6,800.

If Erica and Steve had taken advantage of contributions splitting, they would not have paid any tax on the withdrawal. Steve could have set up an account to receive half of Erica's yearly salary sacrifice contributions. They would have accumulated \$125,000 in each account, rather than \$250,000 in Erica's account alone.

At retirement, Erica and Steve could then have withdrawn the \$125,000 from each account. As the first \$210,000 taxable component is taxed at a zero rate of tax, they would not pay any tax on their withdrawals, saving them \$6,800 in tax payable, and giving them more money to pay for their property purchase.

Note:

1. An interest charge also applies to account for the deferral of tax. Individuals can elect to withdraw up to 85% of their excess concessional contributions from their superannuation. Depending upon the amount effectively withdrawn, excess concessional contributions may also count towards the non-concessional contributions.
2. <https://www.ato.gov.au/Individuals/Super/Accessing-your-super/>

Concessional contributions	Concessional contribution caps
Concessional contributions are generally subject to 15% contributions tax in your super fund up to set limits. They generally include employer contributions such as Super Guarantee, salary sacrifice contributions and personal contributions for which a tax deduction has been allowed.	An annual cap on concessional contributions applies each financial year. For the 2019/20 financial year the cap is \$25,000 regardless of your age, however your cap may be higher if your total superannuation balance was less than \$500,000 in 30 June 2019. If you exceed the cap, excess concessional contributions will generally be included in your assessable income and taxed at your marginal rate. You will be entitled to a tax offset equal to 15% of your excess concessional contributions. ¹

Before splitting

You should be aware that splitting contributions:

- is not allowed, if your spouse is age 65 or over, or is between preservation age² and 65 and has retired
- is not allowed if you have rolled over or withdrawn your entire benefit
- is not offered by all super funds
- is subject to preservation rules and contributions generally cannot be accessed until you retire on or after preservation age or you reach age 65.

If you have any questions or require further information, speak to your Consultum Financial Adviser.

