If you want to make a superannuation contribution and claim it in your 2023 tax return you best get a wriggle on. The contribution has to be safely in the superannuation fund by the 30th June. This post addresses the practicalities of making the contribution and dealing with the $27,500 cap.

Measuring the $27,500 cap:

If your employer is also making contributions, then making your own, when you want to go all the way up to your cap is tricky. The cap includes contributions made by your employer. Your payslip may tell you how much super your employer has put aside for you, year to date. That is not really relevant, it is the date that they actually put it into the superannuation fund that matters. As employers have up to 28 days, after the end of the quarter, to contribute, the June contribution could be paid into the fund either side of the 30th June. From your employer's point of view, they get a tax deduction in the year they actually make the contribution. So, if they are having a good year, they will make it early, possibly giving you 5 quarters of contributions in one year. If they are having a bad year, they may be cash strapped and not make the contribution until the last minute i.e. 28th July and they may have done that last year.

In short, ignore your payslip, log into your superannuation account to find the year to date contributions it has received for you. Then ask your employer whether they are going to make any more contributions, actually into the fund, for you, before 30th June. If they are, add this to the balance already showing in the superannuation fund. Then deduct that total from $27,500 to get the amount you are allowed to contribute without going over your cap.

Catch Up Contributions:

2020 was the first financial year where you are allowed to contribute over and above your cap if you had not used up the full cap in a previous year. The first year that you can look to for an unused cap is the 2018-2019 financial year and you can only look back 5 years, once we get that far away from 2018-2019. The cap up until the 2021-2022 year was $25,000 from 2021-2022 it is $27,500. Warning – you can only qualify to take advantage of this if your superannuation balance at 1st July 2019 was under $500,000.

What if you go over and you have no Unused Cap Saved?

This will be fine as long as you have not fully used up your non tax deductible contributions cap of $110,000 per year. You can still put the money into the superannuation fund and if when it all settles after 30th June, you find you are over the $27,500 you simply notify your superannuation fund that you will not be claiming that excess as a tax deduction. The up side of this is there will be no contributions tax payable on that excess and no penalty. You just won't get a tax deduction for that excess and it is now locked away in the fund until retirement. If you are close to retirement anyway, that might not be a bad thing.

How to actually make a super contribution for yourself:

The best way is to electronically transfer the funds with the right code. This code not only makes sure the contribution goes against your account; it also describes what sort of contribution it is. You need to contact your fund to get that code. They all seem to have different terminology in their call centres, so it is important to make the following things clear to them.

• You are making the contribution for yourself; it is not an employer contribution.

and

• You are going to claim the contribution as a tax deduction in your personal tax return, so you need them to send out the form for your Accountant to complete.

Getting Around Div 293:

If your adjusted taxable income is above $250,000 the ATO will send you a bill for another 15% tax on your concessional superannuation contributions, that is super contributions that your employer has made and ones you have made for yourself that were taxed at 15% rather than your marginal tax rate. The term $250,000 in adjusted taxable income means that (among other things such as rental property losses) any extra superannuation contributions that you claim a tax deduction for will be added back so that won't help you bring your adjusted taxable income down. The definition of superannuation contributions that will be added back are those that are treated concessionally, that is the key. Now odds are if you are on more than $250,000 a year you are already using up your $27,500 maximum concessional contributions cap through the employer superannuation guarantee. So, if you were to make a further superannuation contribution for yourself and claim a tax deduction for it the ATO would pick this up and make you pay a top up tax to bring the tax paid on the contribution up to the maximum tax rate. You can pay this top up tax direct or it can be paid by your superannuation fund. As these contributions over the $27,500 cap are no longer concessionally taxed they no longer added back.

For example if say you were earning $280,000 in taxable income you could put $30,000 into super and claim a tax deduction for it in your tax return bringing your taxable income down to $250,000 so no Div 293 on the $27,500 your employer contributed. The $30,000 is still tax deductible in your tax return but it is not added back because it does not received concessional treatment in the super fund because the top up tax is triggered. The top up tax just means you end up paying the tax that you would have paid had you taken the amount as wages but you have saved $4,125 in Div 293 tax. The only downside is you have more money locked away in super until you retire.

Careful – Make sure that you have not used up all of your non concessional cap. Seek advice if you have been making contributions for superannuation that you have not been claiming a tax deduction for.

Important to Note:

You should get advice to make sure it is appropriate for you to make a contribution. For example, you need to be under 75 years of age. Note if you are between 67 and

74 years of age you need to meet a work test of 40 hours within 30 days, in the year you are making the contribution. You may qualify for an exemption from the work test if your super balance at the end of the previous financial year was under $300,000 and you satisfied the work test in that year.