



## Focus on Self Employed Super

You are generally defined as 'self-employed' if you don't have an employer making super contributions on your behalf. You are also considered to be 'substantially self-employed' if you do have an employer paying superannuation, but you receive less than 10% of your total assessable income as salary, wages or fringe benefits.

Call 03 9017 4114 or  
email [admin@mylife.com.au](mailto:admin@mylife.com.au)

As a self-employed person there are a few things you need to consider when making superannuation contributions, if you want to claim a tax deduction.

These include:

- What are the tax incentives?
- What is my concessional contribution cap?
- How much should I claim on my contribution?

Let's take a look at each of these in more detail along with some other important considerations.

### What are the available tax incentives?

As a self-employed person you can claim a tax deduction when you make personal contributions to superannuation. If you are substantially self-employed you may also be able to claim a tax deduction.

If this sounds like you, you will generally be able to claim a tax deduction for all personal contributions made to your superannuation, but you should be aware of contribution caps.

### What is my concessional contribution cap?

A single annual concessional (or tax deductible) contribution cap of \$25,000 applies to all tax deductible contributions, including employer contributions, made by you or on your behalf. Contributions under this limit are taxed at a lower rate of 15% on entry into superannuation.

If you are self-employed you can claim a 100% tax deduction on all personal contributions you make, however contributions that exceed your cap will be taxed at 46.5%, so there is usually no benefit in contributing any more than your cap.

The \$25,000 cap is indexed each year in line with Average Weekly Ordinary Time Earnings (AWOTE), but only when the increase is more than \$5,000.

### How much should I claim on my contributions?

This will depend on your personal income circumstances for the year, and will include considerations based on how much income you earned through your business and investments, and whether you will pay tax on assets you may have sold during the year.

There is no limit to the amount you can claim as a tax deduction. However, as discussed above, new contribution caps determine the rate of tax on those contributions so generally you should not exceed \$25,000. You should discuss your situation with your financial planner before deciding how much to claim.

## What else do I need to consider?

In addition to concessional contributions you can also make after-tax (non-concessional) contributions. While you will not claim a tax deduction on these contributions, there is also no tax on your contribution when it is invested into superannuation, nor on your withdrawals.

Non-concessional contributions are subject to an annual cap of \$150,000 (\$450,000 averaged over three years). If you exceed this limit, your contribution will be taxed at 46.5%: not an attractive prospect so be careful! The attraction of non-concessional contributions is that you may qualify for the Government Co-

contribution, depending on your income. If you qualify for the co-contribution, the government will contribute up to 50 cents for every \$1.00 up to \$500 that you invest into superannuation as a non-concessional contribution. In order to qualify for the co-contribution you must have assessable income of less than \$46,920 pa.

Remember that your super is for your retirement and that you may not be able to access your money until you retire after age 55 or 60. To ensure your savings strategy is working for you now and in the future, be sure to seek personal financial advice.

## Super saving strategy – Mark's story

Mark is 35 years old and runs his own car detailing business as a sole trader. He has no other paid employment and is therefore self-employed. Mark earns around \$60,000 pa in his job.

Mark has worked out that he can save around \$12,000 pa from his after tax income towards his retirement and has identified the portfolio of funds he wants to invest in. This portfolio will provide around 4% income (50% franked) and 4% capital growth per annum. Mark needs to decide whether to establish this portfolio inside superannuation or as an ordinary investment.

## What about Capital Gains Tax (CGT)?

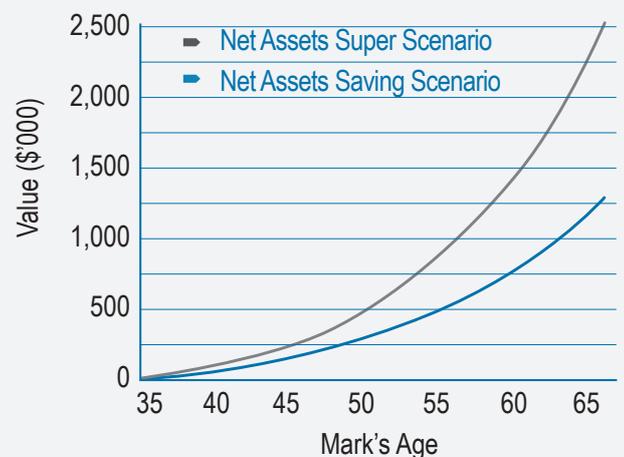
When you sell investments at a profit you will usually have to pay Capital Gains Tax. However, some superannuation funds allow you to transfer your funds into an allocated pension without selling your investments. Because allocated pension earnings are tax-free, no capital gains tax will be payable. Of course, if your managed funds buy and sell assets within superannuation, some CGT will be payable.

## Mark can either:

1. Invest \$12,000 of his after tax income into managed funds every year until he turns 65, a total investment of \$360,000 after tax; or
2. Make a self-employed contribution of \$17,518 to superannuation every year until he turns 65. (Because he will get a tax deduction on his contribution, Mark's saved tax of \$5,518 is added to his superannuation contribution.) 15% superannuation contributions tax will be deducted from Mark's contributions resulting in a net investment of \$14,890 each year (a total of \$536,040 after tax).

Both of these options give Mark the same cash flow, the tax benefits of superannuation mean that he will have an extra \$1,170,731 by making self-employed superannuation contributions over thirty years. You can see this in the table below. To make superannuation even more attractive, Mark will also receive his allocated pension tax-free.

	Ordinary Investments	Superannuation
Annual Investment	\$12,000	\$17,518
Less Contributions Tax	Nil (income tax already paid)	\$2,628
Net annual investment	\$12,000	\$14,890
In thirty years...		
Mark's investment balance	\$1,413,774	\$2,463,591
Less Capital Gains Tax	(\$120,914)	Nil on transfer to pension
Net Investment	\$1,292,860	\$2,463,591



To find out more about self employed super options, contact MyLife Financial Planning today on 03 9017 4114.

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