

How much can the self employed put into super?

From 1 July 2007 there will be limits on the contributions you can make to your super.

Simpler limits on deductible contributions

Currently, age-based limits determine the amount of 'deductible' contributions you can make each year. From 1 July 2007, a single limit of \$50,000 per person per year will apply to everyone.

Full tax deductibility for contributions

Currently, the self employed are limited in the amount of contributions for which they can claim a tax deduction: \$5,000, plus 75% of the balance up to their age based limit.

Age-based limits vs new deductible limit

Age	Before 1 July 2007	From 1 July 2007
Under 35	\$15,260	\$50,000
35 to 49	\$42,385	\$50,000
50 and over	\$105,113	\$50,000*

For example, the 2006/2007 age-based limit for someone over 50 is \$105,113. Under the current rules, this means that a 52 year old self employed person would need to contribute \$138,484 to be able to maximise their tax deduction.

From 1 July 2007, the self employed will be eligible to claim a full tax deduction up to the new deductible contribution limits*.

* A transitional limit of \$100,000 per person per year applies for those aged 50 and over between 1 July 2007 and 30 June 2012.

Transitional measures

For the five years between 1 July 2007 and 30 June 2012, if you are aged 50 or over, or from the year you turn 50, you will be entitled to a transitional limit of \$100,000 per person per year. From 1 July 2012, this limit will revert to \$50,000 per person per year (indexed).

Excess contributions will be taxed at 46.5% (including the 15% super contributions tax) and will count towards your undeducted limit. Penalty tax can be paid from the monies in your superannuation account.

New limits on undeducted contributions

Currently, there is no limit on the level of undeducted contributions you can make to super. However, with the removal of Reasonable Benefit Limits and the introduction of tax free super for the over 60s, contribution limits will apply.

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Transitional measures

Until 30 June 2007, anyone can contribute up to \$1 million to their super. Those aged over 65 wanting to contribute, will need to meet a work test.

From 1 July 2007

An annual limit of \$150,000 per person per year will apply.

Those under 65 will be able to bring forward two years worth of contributions, enabling them to contribute up to \$450,000 in one year.

Certain payments will be excluded from the annual limit:

- Proceeds from the sale of small business assets up to a lifetime limit of \$ 1 million.
- 'Settlements' received for injuries relating to permanent disablement.

Contributions in excess of the limit will be taxed at 46.5% which can be released and paid from your super fund.

Government Co-contribution

If 10% or more of your income is from carrying on a business, from 1 July 2007 you may qualify for a Government Co-contribution of up to \$1,500 pa if you make a personal contribution to your super.

Invalidity component

Currently if you cease employment due to a disability, some of your super may be classified as 'post June 1994 invalidity component' which is tax-free. From 1 July 2007, this component will now be available to the self employed.

Tips:

- Check your super statements to make sure you have provided your TFN to your fund, otherwise your deductible contributions will incur tax at the highest rate and undeducted contributions will not be accepted.
- Make a contribution of up to \$1 million before 30 June 2007.
- If you are over 50, utilise the transitional cap of \$100,000 and be able to claim a full tax deduction.
- Contribute the proceeds from the sale of small business assets to super up to a lifetime limit of \$1 million. This will not be included against any other caps.
- After 30 June 2007, couples can each utilise the \$450,000 averaging limits for undeducted contributions and contribute up to \$900,000 to their super.
- Consider holding TPD insurance through super: a portion of the invalidity payment may be tax-free and you may be eligible for tax concessions when making contributions to pay the premiums.
- Earn less than \$58,000 pa? Make a personal contribution and be eligible for the Government Co-contribution.

Disclaimer

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