Superannuation – co-contribution

Making a non-concessional contribution (NCC) into superannuation to attract a co-contribution provides a significant boost to your retirement savings.

Benefits

- Your retirement savings will increase more quickly due to the compounding effect of making personal contributions and receiving the superannuation co-contribution.
- Your tax-free component will increase. This component is received tax free including if withdrawn prior to age 60 or if paid to a non-tax dependant (such as an adult child) after your death.
- The additional contributions can help to cover the cost of insurance premiums if you hold insurance inside superannuation.
- You may be able to achieve a higher after-tax rate of return compared to investing outside superannuation because earnings inside superannuation are taxed at a maximum rate of 15%. This compares to earnings outside superannuation which are generally taxed at your marginal tax rate which may be higher.

How it works

The superannuation co-contribution is a Government initiative to help people on low to medium incomes to boost their superannuation savings. To be eligible for the co-contribution, you need to meet all of the following criteria:

- make an eligible NCC (after-tax contribution) into a complying superannuation fund during the financial year
- be under age 71 at the end of the financial year
- have total income (minus any allowable business deductions) for the financial year less than $53,564 for the 2019/20 financial year
- have 10% or more of your total assessable income coming from employment or business income (or a combination of both)
- have not held a temporary visa at any time during the financial year (unless you are a New Zealand citizen or holder of a prescribed visa)
- lodge an Australian income tax return for the relevant financial year
- you have a total superannuation balance of less than the general transfer balance cap (TBC) as at the prior 30 June (cap is $1.6m in 2019/20), and
- you have not made contributions that exceed your NCC cap during the financial year in question.

Total assessable income to determine eligibility is the sum of your assessable income (before tax deductions), reportable fringe benefits and reportable employer superannuation contributions (which include salary sacrificed contributions). This can be reduced by certain allowable deductions if running a business.

The Australian Tax Office (ATO) will determine your eligibility for the co-contribution after receiving your tax return for the relevant year.

Calculating your entitlement

If eligible, the ATO will pay your co-contribution directly into your superannuation account. This payment is tax-free and does not affect your taxable income.

Your entitlement is based on the amount you have contributed into superannuation and your total assessable income. You could receive up to $500.

If you have higher income than the lower threshold of $38,564 (for 2019/20) your maximum co-contribution reduces by 3.333c for every dollar that you earn over that amount. You will not receive any co-contribution if your total annual assessable income exceeds the upper limit for the financial year.

If you run your own business, your gross income (before deductions) is used to check that at least 10% of your total income is from business, to be eligible for the co-contribution. But when you are calculating how much you can receive, your net business income (after-deductions) is used. Deductions for personal superannuation contributions are not included.

Risks and Consequences

- Contribution caps apply to superannuation contributions. Your personal after-tax contribution into superannuation counts towards your NCC cap. If you exceed your NCC cap, significant tax penalties can apply.
- You cannot make an NCC if you have a total superannuation balance equal to or greater than the general TBC as at the prior 30 June.
- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- All contributions to superannuation are preserved until you meet a condition of release. You need to be sure that you do not need access to the amount contributed until you can satisfy a condition of release, such as retirement.
- The Government may change superannuation legislation in the future.

Version: 1.10
Issue date: 15 October 2019