GARVAN
FINANCIAL PLANNING

Guide to…

Undeducted Contributions

What are "Undeducted Contributions"?

Undeducted contributions are contributions that are made to a superannuation fund by an individual for which no tax deductions are allowable. The following contributions are examples of undeducted contributions:

- Personal contributions made by an individual aged under 65.
- Personal contributions made by employees who receive employer superannuation support.
- Contributions made by self-employed individuals which are above their tax-deductible limit.
- Contributions made by an individual to their spouse's superannuation account.

Advantages of undeducted contributions

Although you will not receive a tax deduction, there are several advantages in making undeducted contributions:

- Undeducted contributions are not subject to the 15% "contribution tax" that applies to tax deductible contributions when they enter the superannuation environment nor are they subject to any superannuation contributions surcharge. Investment earnings on your undeducted contributions will, however, be taxed concessionally at a maximum rate of 15%.
- Undeducted contributions are returned tax-free when the benefit is taken as a lump sum.
- Undeducted contributions are not measured against your Reasonable Benefit Limit (RBL). However, any earnings on your undeducted contributions will be counted for RBL purposes.
- When you purchase a pension with an Eligible Termination Payment (ETP) that contains some undeducted contributions, the undeducted contributions component will be used to calculate the deductible amount of the pension. This means that you will receive a portion of every pension payment free of tax in your hands.
- A superannuation benefit payment usually consists of a number of different components which are subject to different rates of tax on withdrawal. Entitlements that you have accrued after 30 June 1983 may be taxed at a higher rate than entitlements accrued before that date. Any undeducted contributions that you make to the fund may beneficially effect the ETP components.

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Withdrawing undeducted contributions

In some cases, undeducted contributions made prior to 1 July 1999 may be withdrawn when you cease employment. Contributions made by self employed persons or contributions made since 30 June 1999, however, are generally only accessible when you retire from the workforce on or after your earliest retirement age, currently age 55. If you were born after 30 June 1960 your earliest retirement age will be greater than age 55, up to a maximum of age 60 for those born on or after 1 July 1964.

Your financial planner can explain to you all the possible advantages and tax implications of using undeducted contribution strategies.

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