Personal Deductible Contributions

To maximise the contributions that can be made to an SMSF, and reduce their personal tax liability, an individual may wish to consider claiming a deduction on any personal contributions up to the concessional contribution cap. From 1 July 2021, the concessional contribution cap is $27,500. This fact sheet considers all the issues associated with making personal deductible contributions.

What are personal deductible contributions?

Individuals receiving employment income, in the capacity as an employee, can make personal deductible contributions in addition to the mandated employer contributions they receive. These contributions are an alternative or indeed a supplement to any additional employer contributions such as those offered through a salary sacrifice arrangement.

Self-employed individuals and individuals in receipt of passive income can also make personal contributions and claim a deduction so long as they have sufficient income for the deduction to offset. This means most individuals under 75 years old can claim a tax deduction for personal contributions to their SMSF (including those aged 67 to 74 who meet the work test).

These contributions are treated as assessable income to the fund and are taxed at 15%, they are attributable to the taxable component of a member's interest within the SMSF. The tax concessions afforded to individuals who wish to claim a deduction are limited to contributions up to the concessional contribution cap, this is regardless of whether they are personal contributions or employer contributions. Contributions in excess of the cap are subject to the excess concessional contribution regime. For more information see our fact sheet here.

Whilst the annual concessional contribution cap is generally fixed, from 1 July 2018 if a member has a Total Superannuation Balance across all superannuation funds of less than $500,000 (as at 30 June of the previous financial year) they are eligible to carry forward any unused amount of the annual concessional contribution cap for up to five years. The five years is a rolling period so any amount not used will expire after five years. Therefore, whilst the concessional contribution cap is currently $27,500, an individual may actually have a higher amount they can contribute based on any unused carry forward amount. For more information on carry forward concessional contributions, see our fact sheet here.

Eligibility to claim a tax deduction

Beyond having sufficient income available to offset, an individual must meet certain criteria to be eligible to claim a deduction on their personal contributions. An individual must satisfy the age restrictions and must provide the SMSF with a notice of intent to claim a deduction and receive acknowledgment from the SMSF trustees that the notice of intent is valid.

Age requirements

From 1 July 2020, if an individual is aged 67-74 then they must satisfy the work test (or work test exemption requirements) in order to be able make a contribution and claim a tax deduction for it. For more information on the work test and exemption, refer to our fact sheet here.

If an individual is over 75 years (subject to meeting the work test or exemption) a deduction can only be claimed for contributions made before the 28th day of the month following the month in which they turned 75 years old.

If an individual is under 18 years at the end of the financial year in which they make a contribution, a deduction can only be claimed if they also received income as an employee or from operating a business during the financial year.

Notice of intent to claim

Where the age eligibility criteria is met and a tax deduction is to be claimed based on the contributions, then a notice of intention to claim a deduction must be provided to the SMSF. This notice may be provided by the Fund's Administrator, or the member can write to the trustees providing all the relevant information or alternatively the member can use the pro-forma provided by the ATO - 'Notice of intent to claim or vary a deduction for personal contributions (NAT 71121)'.

To be valid the notice must be provided while they are still a member of the fund and the fund still holds the contribution i.e. it can't have been rolled over to another fund or paid out as a member benefit, more information is provided on this below, including the impact of commencing a pension.

The SMSF only requires one notice for all contributions made during the year, however, multiple notices can be provided to accommodate certain circumstances as discussed below.

The notice must be provided to the SMSF on the earlier of the day the SMSF annual return is lodged for the year in which the contributions were made, or the end of the financial year following the financial year in which the contributions were made. Written acknowledgment must be received prior to the tax deduction being claimed in the personal tax return.

Impact of claiming a deduction on personal contributions:

Personal taxable income - reduces taxable income and income tax payable by an individual.

Super fund's taxable income - contributions are included in the SMSF's assessable income and subject to tax at 15%.

Government super payments - a low income superannuation tax offset on the tax paid on the contribution may be available. The contribution will not be eligible for a super co-contribution as these are only available for personal non-concessional contributions made.

Contribution caps - there is no limit on claiming a tax deduction for a personal contributions however the contributions made are subject to contribution caps. If an individual exceeds the contribution caps, they will be subject to excess concessional contribution rules.

Division 293 tax - where an individual's personal income exceeds $250,000 then they may pay an additional 15% tax on contributions.

Income tests - where a tax deduction is claimed for personal contributions it is part of 'reportable super contributions'. These affect some tax offsets, Medicare levy surcharge and some government benefits.

Varying a notice of intent

The notice of intent can be varied until the due date for lodging the claim, you can only vary a notice to decrease the amount to claim not to increase it. Where the deduction is disallowed by the ATO you can vary the notice with the fund after the due date. However, if the contribution has been included in an account that has commenced to pay a super income stream then you cannot vary the notice. Written acknowledgement from the super fund will be provided to the member acknowledging receipt of the valid notice of intent to vary a deduction for personal super contributions.

Splitting contributions

Only taxable contributions are eligible for contribution splitting. Therefore, if the contributions are going to be split with a spouse under a Superannuation contributions splitting application then the notice of intent to claim must be provided to the fund first before the super split can occur.

How do personal deductible contributions affect lump sum and pension commencements?

All personal member contributions are non-concessional until such time that a member lodges a notice of intent to claim a deduction. Getting the timing of the paperwork right on this is critical to being able to claim the full amount of the intended tax deduction.

Pensions – The notice must be provided prior to commencing any income streams/pensions as the tax free and taxable components are calculated immediately prior to the commencement date. Failure to provide a notice of intention before the pension commences means any notice will be invalid.

Lump Sums – Unlike pensions, if the fund pays the member a benefit, either directly or via a rollover to another fund, then a notice of intention to claim will be limited to a proportion of the tax free component of the superannuation interest that remains after the withdrawal. The proportion is the value of the contribution divided by the tax free component of the superannuation interest immediately prior to the withdrawal. This proportioning will apply even on lump sums taken in a latter year if the lump sum is taken before the notice of intention is lodged.

This calculation forms part of the SuperGuardian administration processes so when an individual commence a pension or takes a lump sum withdrawal we will confirm the treatment of any personal contributions and ensure the deduction notice is prepared accordingly.