



Unused Concessional Contributions Cap Carry Forward

The standard concessional contribution cap, the limit for concessional employer and personal deductible contributions, has remained at \$25,000 since 1 July 2017. It is subject to indexation, based on Average Weekly Ordinary Times Earnings (AWOTE), which will result in future increments of \$2,500.

Restricting limits on the contributions that can be made to super can make it difficult for people who take time out from the workforce or work part time over a period to be able to save for retirement. Common examples of where individuals take time out of the workforce include to care for young children or other family members.

In these and other circumstances, individuals may not be making any contributions or very little will be contributed over a significant time period. When they return to employment or their situation changes, they may be in a position where they would like to try and catch up financially on the contributions they missed, and they may have funds available to make a larger contribution than normally allowable under the ordinary concessional contributions cap.

Similarly, some individuals may encounter financial windfalls, such as gains on personal investments, where they have the capacity to contribute extra funds or would like to look at ways of reducing their taxable income for an irregular income year.

What is the carry forward concessional contributions cap measure?

At 1 July 2018 the ability to carry forward the unused portion of prior year concessional contributions cap was introduced to help deal with the issues created by individuals changing their working habits and to maximise the use of unused caps for those with lower superannuation balances.

The rules state that where an individual's Total Superannuation Balance is less than \$500,000 as at 30th June of the previous financial year, they may be able to use this measure. This enables an individual to contribute more than the standard concessional contributions cap by carrying forward the unused contributions cap from prior years. Unused concessional contributions are available on a rolling basis and can be carried forward for a maximum of 5 years after which time they will drop off.

As the measure was introduced from 1 July 2018 it means that 2019/20 was the first financial year this unused cap space could actually be used. As many individuals may not be aware of this opportunity we will look into what this means for individuals who may be in a position to utilise the cap space and make a catch-up concessional contribution to super.

How does the five year carry forward work in practice?

As mentioned previously the cap is indexed, however, we will assume that indexation is not relevant in the example below, acknowledging that the example makes assumptions about contributions made in the future. When indexation does occur it will just provide a great available amount.

Example

Facts

- Member is 35 years old and takes time out from the workforce from 1 July 2018 to care for two young children
- Returns to work in a part time capacity from 1 July 2020
- In August 2021 sells some personally held shares with a capital gain and wants to make use of some of the unused caps to boost their super given they missed out on contributing whilst they were not working and also offset the tax on the sale of the shares

How does the carry forward arrangement apply to the caps in this example over a 5 year period?

Financial Year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Cap	25,000	25,000	25,000	25,000	25,000	25,000
Actual Contribution	-	-	10,000	45,000	10,000	10,000
Unused Cap for year	25,000	25,000	15,000	-	15,000	15,000
Cumulative Carry Forward	25,000	50,000	65,000	45,000	60,000	75,000
Total Superannuation Balance at 30 June prior year	405,000	415,000	440,000	465,000	510,000	485,000

From the above example we can see that they were under the \$500,000 total superannuation balance limit at 30 June 2021 and therefore eligible to carry forward their unused cap to make a larger contribution. As the balance is over \$500,000 at 30 June 2023 the measure is not available in the 23/24 year but that doesn't reset the start of the 5-year rolling period, it just means it is unavailable at that point in time. As the balance drops again in the following year the measure would be available in 2024/25.

The unused cap space is used in order of earliest financial year to most recent financial year. Therefore, from the above example the unused cap from 2018/19 will expire at the end of the 2023/24, as only \$20,000 of the \$25,000 cap was used in 2021/22, the \$5,000 unused balance will expire. The unused cap space from 2019/20 will expire on 2024/25 if not used.

Conclusion

Maximising opportunities for contributions are essential for individuals who take time out from the work force for various reasons. In order to not be financially disadvantaged for retirement income purposes, any opportunity should be considered where possible. The ability to carry forward unused caps over a rolling 5-year period is one way that people can stay on target when they have additional funds available. Of course, there is the additional bonus that any extra contribution can also be used to offset personal tax liability.

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