Perpetual

A savings boost for the self-employed

Contributing to superannuation is simply the most tax-effective way to save and invest for your retirement.

Superannuation is a long-term investment that enables you to grow your wealth over decades, through market and economic cycles, and benefit from compounding investment returns.

If you are self-employed, contributing to super is not compulsory.

However, by making regular contributions you can take advantage of a range of tax benefits – and the younger you start and the more you contribute, the more you will have to fund your retirement lifestyle.

Are you self-employed?

Anyone who runs their own business or earns less than 10% of their total income from income paid by an employer is considered to be self-employed for the purposes of superannuation.

This may include people who are unemployed or retired, provided those aged 65 or over meet the work-test (worked at least 40 hours in 30 consecutive days).

What are the benefits?

Better lifestyle in retirement - By accumulating wealth, you won't have to rely solely on the Government's Age Pension for income in retirement.

Grow your retirement savings - Your money is locked away until retirement which removes the temptation to spend the funds.

Tax-free income stream - Commencing an account based pension with your super means income payments are tax-free once you reach 60.

Tax-effectiveness - If you are self-employed, you can claim a 100% tax deduction for all contributions made (called concessional contributions) to super up until age 75 (as long as the work test is met from age 65).

Cost-effective insurance - Insurance offered through super is based on discounted group rates, so it may be better value than taking out the same cover outside super.

Tax minimisation - All contributions and earnings are taxed at just 15%, rather than at your marginal tax rate until retirement, and then tax-free.

Retirement safety net – Many business owners rely on the sale of their business to provide income for their retirement. Superannuation can provide additional peace of mind if the sale does not meet expectations.

How much can I contribute?

Concessional contributions cover employer contributions, salary sacrifice contributions and, if self-employed, tax-deductible super contributions.

The amount you can contribute in concessional contributions is limited by certain caps, which are set out in Table 1 below.

Table 1 – Concessional limit for concessional contributions

Age	Concessional limit for concessional contributions
Under age 50	$25,000 per annum
50 years of age and over	$50,000 per annum until 30 June 2012*

Source: Australian Taxation Office

* The Government has announced in the 2010 Federal Budget that the concessional limit for those aged 50 years and over will remain permanently at $50,000 for those with balances of less than $500,000 in superannuation.

Someone under age 50 can contribute up to $25,000 in concessional contributions and, if self-employed, receive a 100% tax deduction for this amount.

For many self-employed over age 50, the opportunity to contribute up to $50,000 each financial year to their super fund provides an excellent opportunity to enhance their wealth and take advantage of tax savings.

You can also make your own after-tax contributions, called non-concessional contributions, as long as you pass the basic age and work test (see Table 2 below).

Table 2 – Caps for non-concessional contributions

Age	Caps for non-concessional contributions
Under age 65	$150,000 per annum or $450,000 over three years
Between 65 and 74	$150,000 per annum

Source: Australian Taxation Office.

Case study

The benefits of concessional contributions

Jocelyn, aged 52, is a self-employed physiotherapist running her own practice.

Having recently sold an investment property that has realised a $175,000 net capital gain, Jocelyn would like to put some of the money away for her retirement.

Jocelyn would like to know how tax-effective it would be to contribute $50,000 of the proceeds as a concessional contribution into her DIY super fund.

The following table highlights the benefit to Jocelyn's overall financial position if she contributes $50,000 to her superannuation.

Jocelyn decides to go ahead with this strategy, as she pays $11,500 less tax as a result.

	No super contribution	Super contribution
Assessable capital gain	$175,000	$175,000
Contribution to super/ deduction	Nil	$50,000
Taxable income from sale	$175,000	$125,000
Tax on taxable income	($53,949)	($34,949)
Net proceeds from sale	$121,051	$132,551

Source: Perpetual

Take advantage of co-contributions

To encourage everyone to boost their super, the Government has created a number of strategies to help individuals increase their contributions.

One of these strategies is the co-contribution scheme, where the Government contributes an additional $1 for every $1 that you contribute into super, up to a maximum of $1,000.

The amount of the co-contribution you receive depends on your assessable income – the less you earn, the more you will get from the Government.

The maximum co-contribution is received if your income is less than $31,920 and a part benefit is provided if your income is between this amount and $61,920.

If you are self-employed, you are eligible for the co-contribution scheme in each tax year if:

- You make after-tax contributions into your super fund by 30 June
- 10% or more of your total assessable income plus reportable fringe benefits plus reportable super benefits is from carrying on a business, eligible employment or both
- Your total income which includes assessable income, reportable fringe benefits and reportable employer super contributions (less any expenses in carrying on a business for the income year) is under $61,920
- Your income tax return for the current income year has been lodged
- You are less than 71 years old at the end of the income year
- You do not hold an eligible temporary residents visa.

If you contribute $1,000 after tax into your superannuation, the co-contribution scheme will provide you with up to $1,000 in additional super contributions.

Taking advantage of this scheme could also potentially cover the annual cost of any insurance you take out within your fund.

This information has been prepared by Perpetual Superannuation Limited (PSL) ABN 84 008 416 831, AFSL 225246, RSE L0003315 (as Trustee for the WealthFocus Super Plan and Pension Plan ABN 41 772 007 500). It contains general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider whether the information is suitable for your circumstances and we recommend that you seek professional advice. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The information is believed to be accurate at the time of compilation and is provided by Perpetual in good faith.

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