Super strategies

Contribute to super and offset capital gains tax

When contributing to super, claiming a portion of the contribution as a tax deduction could enable you to pay less capital gains tax and increase your retirement savings.

How does the strategy work?

Cashing out a non-super investment, paying capital gains tax (CGT) and using the remaining amount to make a personal super contribution can be a powerful strategy.

This is because the low tax rate payable on investment earnings in super could more than compensate for your CGT liability over the longer term.

However, if you meet certain conditions, you may want to claim a portion of your super contribution as a tax deduction. By doing this, you could use the tax deduction to offset some (or all) of your taxable capital gain and reduce (or eliminate) your CGT liability.

While the tax-deductible portion of your super contribution will be taxed at 15%[1] in the fund, this strategy could enable you to make a larger super investment and retire with even more money to meet your living expenses.

How do you claim the deduction?

To be eligible to claim the super contribution as a tax deduction, you need to submit a valid **'Notice of Intent'** form. You will also need to receive an acknowledgement from the super fund before you complete your tax return, start a pension or withdraw or rollover money from the fund to which you made your personal contribution.

Make sure you can utilise the deduction

It is generally not tax-effective to claim a tax deduction for an amount that reduces your assessable income below the threshold at which the 19% marginal tax rate is payable. This is because you would end up paying more tax on the super contribution than you would save from claiming the deduction.

Other key considerations

- Personal deductible contributions count towards the 'concessional contribution' cap (which is $25,000 in 2018/19) and tax penalties apply if you exceed the cap.
- You can't access super until you meet certain conditions.
- Since 1 July 2018, if certain eligibility criteria are met, you may be able to carry forward unused concessional cap amounts. This may enable you to make concessional contributions in excess of the annual cap in a future year.

Seek advice

To find out whether you could benefit from this strategy, you should speak to a financial adviser and a registered tax agent.

[1] Individuals with income above $250,000 in 2018/19 will pay an additional 15% tax on concessionally taxed super contributions.

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Case study

Lisa, aged 42, is self-employed, earns a taxable income of $90,000 pa and has a share portfolio worth $50,000. She wants to sell her shares and invest the money in super so she can boost her retirement savings. The sale of these shares will crystallise a taxable capital gain of $10,000[2].

She could make a personal after-tax super contribution of $46,100 (after keeping $3,900[3] to pay CGT on the sale of the shares).

However, her adviser suggests that a better approach may be to invest the full sale proceeds of $50,000 in super and claim $10,000 as a tax deduction, subject to receiving tax advice from her registered tax agent.

By doing this, she can use the deduction to offset her taxable capital gain of $10,000 and eliminate her CGT liability of $3,900.

	Without claiming deduction	With claiming deduction
Taxable gain	$10,000	$10,000
Less deduction for super contribution	Nil	($10,000)
Taxable gain after claiming deduction	$10,000	Nil

While the deductible contribution will be taxed at 15% in the super fund, this strategy will enable her to invest an additional $2,400 in super for her retirement.

	Without claiming deduction	With claiming deduction
Value of shares prior to selling	$50,000	$50,000
Less CGT payable on sale	($3,900)	Nil
Less tax on deductible super contribution	Nil	($1,500)
Net super investment	$46,100	$48,500
Additional super investment		**$2,400**

[2] This figure is after the 50% general CGT discount (that is available because Lisa has owned the shares for more than 12 months) and assumes she has no capital losses to offset her taxable capital gain.

[3] Based on a marginal tax rate of 37%, plus Medicare levy of 2%. Does not include change in Low and Middle Income Tax Offset.

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