

Making spouse super contributions



What are spouse contributions and who can make them?

Making a spouse contribution can be a useful strategy if you are looking to receive tax relief, boost your spouse's superannuation account and equalise your benefits.

Spouse contributions are contributions made to a superannuation account on behalf of your spouse. For tax purposes, these contributions are classified as non-concessional contributions in respect of the spouse receiving the benefit.

Married couples and de facto partners who live together qualify to make spouse contributions¹ under the following criteria:

- the contributing spouse may be any age;
- if the receiving spouse is under age 65 employment status is irrelevant; and
- if the receiving spouse is between the ages of 65 and 69, they must be gainfully employed for at least 40 hours in a period consisting of 30 consecutive days in the financial year the contribution is made.

¹ Spouse includes married, de-facto and same sex couples.

The benefits

Contributing to super on behalf of a spouse can help reduce the tax payable by a couple wishing to receive their superannuation benefits prior to age 60 by allowing access to two tax-free thresholds.

You may qualify for a tax rebate of up to \$540 if your spouse has assessable income plus reportable fringe benefits of less than \$10,800 in the financial year in which you contributed at least \$3,000 on their behalf.

The table below outlines the tax rebate available to you.

Spouse's income [^]	Contribution amount	You can claim an offset of:
\$10,800 or less	\$0 - \$3,000	18% of contributions
	\$3,000 or more	\$540 maximum
\$10,800 - \$13,799	Any amount	18% of contributions up to \$3,000 (minus \$1 for every dollar your spouse earns over \$10,800)
More than \$13,800	Any amount	Nil

Implementing a spouse contribution strategy

Like many superannuation savings options, it may be to your advantage to start earlier rather than later. The combined effect of regular spouse contributions and the power of compounding investment returns may help to build the retirement savings for both you and your spouse. A spouse contribution can also assist in equalising benefits and to reduce the tax payable prior to age 60.

[^] Assessable income plus reportable fringe benefits.

Case study

Government co-contributions of up to \$1,000 p.a. will be made available to those who earn up to \$61,920 p.a. (for the 2009-2010 financial year) and make personal after-tax (non-concessional) contributions.

Where only one spouse earns over \$61,920 p.a. and is ineligible for the Government co-contribution, they may apply to make an after-tax voluntary contribution into the other partner's super account (separate from the spouse contribution itself) and allow them to qualify for the Government co-contribution.

To better understand how spouse contributions can work, let's take a look at an example of a married couple – David (40 years old, working full-time, earning \$80,000 each year and receiving a year-end bonus of \$5,000) and Michelle (40 years old, working part-time, earning \$10,000 a year with no other taxable income). Let's assume David pays tax at his marginal rate on his \$5,000 bonus and Michelle then uses \$1,000 of this to contribute to her own account.

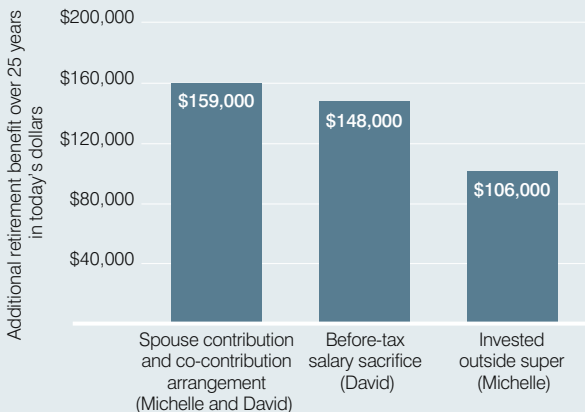
The contribution strategy entitles Michelle to a Government co-contribution of \$1,000 per annum. They would also invest the remaining money into Michelle's account as a spouse contribution, which gives David a tax-offset which he can reinvest back into his account.

How spouse contributions and co-contributions can work

	Year one (\$)	
	David	Michelle
Bonus available after-tax*	3,025	–
Spouse contribution	–	2,025
Spouse rebate	365	–
After-tax voluntary contribution	–	1,000
Government co-contribution	–	1,000
Net amount to invest	365	4,025

* Includes a Medicare levy of 1.5%. Tax rates and thresholds are for the 2009/10 financial year. Example based on income of \$80,000 p.a. David pays tax at his MTR on the \$5,000 bonus and gives Michelle (who earns \$10,000 p.a.) \$1,000 of his bonus (post-tax). He then makes a spouse contribution with the remainder. He receives a tax-offset for this contribution and reinvests it back into his account. Michelle makes a voluntary contribution of \$1,000 and receives a \$1,000 Government co-contribution.

The long-term benefits of spouse contributions and co-contributions



As this example illustrates, over 25 years, this strategy has created considerably more in Michelle's superannuation account than if she had done nothing.

Assumptions:

Bonus of \$5,000 before-tax or equivalent \$3,025 after-tax is contributed at the end of each year until retirement age 65. Contributions not indexed. Moderate investment portfolio for super and non super money. Return for super 8.0% p.a. after fees and taxes, return for non-super 8.5% p.a. after fees, tax paid by investor not in the fund. Inflation 3.0% p.a. Salary growth 4.0% p.a. No administration fees. Contributions tax 15% p.a. Franked income in the moderate portfolio: 23.6%. Income return: 3.6% and capital gain return: 4.9% Non super investment pays a distribution at the end of the year based on 3.6% income return, taxed at marginal rates and net amount re-invested at year end. At age 65, the non-super investment is redeemed and CGT is paid using the 50% rule. No lump tax on super at age 65. No Superannuation Guarantee contributions allowed for. Max co-contribution rate of \$1.00 per \$1.00 until 2011-12, \$1.25 per \$1.00 from 2012-13 to 2013-14 and \$1.50 per \$1.00 from 2014-15 onwards paid at the end of the year. Projections based on marginal tax rates and low income tax rebates announced in 2009 Federal budget including Medicare Levy. 2010-11 rates are assumed to continue thereafter. Medicare Levy Surcharge is not paid. Investment performance can go up and down and the assumptions used may vary. Figures are rounded to nearest \$1,000.

Limits on after-tax (non-concessional) contributions

The table below summarises the tax payable on non-concessional contributions for the 2009-2010 financial year.

Situation	Non-concessional contributions
If no TFN quoted	Fund cannot accept contributions
Contributions exceeding NCC cap \$150,000: if aged less than 65, an individual may bring forward two years cap and contribute up to \$450,000 in any one year	Additional tax of 46.5% imposed by ATO

In the 2009-2010 year an annual limit of \$150,000 per person applies on contributions which will be indexed in future years so that it is always three times the concessional cap. However, if you are under age 65, you will be able to bring forward up to two years worth of contributions and invest up to \$450,000 in one year. If you do this, no further contribution will be allowed in the following two years and you will not need to meet a work test in any of the three years.

Once a person turns 65 they will be able to make personal after-tax contributions of up to \$150,000 a year provided they satisfy the work test in each relevant year.

Certain after-tax contributions will also be excluded from the annual limits, These include:

- Government co-contributions;
- The proceeds from the sale of small business assets up to a lifetime limit of \$1.1 million (this limit will be indexed); and
- Certain 'settlements' received for injuries relating to permanent disablement.

Contributions in excess of the after-tax (non-concessional) contribution limit will be taxed at a rate of 46.5%.

Please note that members are required to nominate a super fund account from which the tax can be paid. The ATO will issue a Release Authority to the member which must be submitted to the super fund within 21 days.

Contact Plum on **1300 55 7586** for a copy of the Plum Personal Plan – *Eligible spouse application form*.

Before making any financial decision we recommend you seek advice from a qualified financial adviser.

Where to from here?



Helping you to get on track

Plum also offers a range of services that may be of benefit to you now and in the future.

These include:

Eligible Spouse Plan

Contributing to super on behalf of your spouse can be a tax-effective way for a couple to save for retirement. Your spouse's employer is also able to make contributions to their super fund. You may also consolidate or transfer funds through a spouse super arrangement within the *Plum Personal Plan* (a sub-plan of the Plum Superannuation Fund). Your spouse will have a choice of investments, as well as access to insurance. It may also be effective in reducing your spouse's annual fees, as the fees in the *Eligible Spouse Plan* are comparable to the fees in your current employer plan.

BPAY® for member contributions

You now have the opportunity to use BPAY to make both voluntary after-tax contributions as well as receive contributions on behalf of your spouse. Further details on BPAY are available from our website at www.plum.com.au. Alternatively, you can also contact a Plum Member Services Consultant on **1300 55 7586**.

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If you would like more information about *Momentum Financial Advice* or would like to access this service, contact a Plum Member Services Consultant on **1300 55 7586**.

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Contact us for more information

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www.plum.com.au or



or speak with a Plum Member Services Consultant on **1300 55 7586**.

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