



## Media release

15 January 2008

### Plum tackles new concessional contributions cap head on

Plum Financial Services Limited (Plum) has taken an industry-leading approach to the Better Super changes, addressing the increased chance that members might inadvertently exceed the concessional contributions cap\* – and be charged a high rate of tax as a result.

According to Plum's Managing Director Mike Fitzsimons, Plum realised, as part of its project to implement the Better Super changes, that there are many circumstances where members might unknowingly exceed the concessional contributions cap (the Cap).

Any contributions above the Cap attract an additional 31.5% tax, resulting in a total tax payable of 46.5%.

'For members, it is hard to be across all of the new legislative changes to super,' Mr Fitzsimons said.

'There are a number of different factors that come into play when calculating the Cap, such as insurance premiums paid on behalf of members by employers. Most members would not connect subsidised insurance to the Cap.

'The additional tax for exceeding the Cap can put quite a dent in the amount a member is contributing to their super. We think it is vital that super funds do their utmost to ensure members not only fully understand the implications of exceeding the Cap, but have the best chance of avoiding doing so, should they wish to.'

As a result, Plum has implemented a two-tiered awareness campaign, targeting all members generally and then following up with those members who are more likely to inadvertently exceed the Cap.

The first tier of the campaign has two parts. For the past six months, Plum has been educating members generally on the Cap and the implications via a number of channels, including members' newsletters, direct mailouts and online communications.

The second part consists of letters sent specifically to members who Plum has identified may be at a higher risk of inadvertently exceeding the Cap. This consists of letters advising members of the estimated amount their employer pays on their behalf in fees and insurance premiums, and letters advising Defined Benefit members of what their notional taxed contributions are and how to calculate them.

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This awareness campaign is ongoing as part of Plum's normal member communications.

The second tier of the campaign features personalised communications to individual members and is well underway. Plum is setting up its systems to identify those members whose contribution levels to their Plum fund are nearing their Cap. These members will then receive a letter from Plum advising them of the total concessional contributions made over the financial year.

'Targeting specific members will help ensure members don't mistakenly exceed the Cap. Plum has taken the lead in this regard, and we are encouraging the industry to follow suit,' Mr Fitzsimons said.

Some factors that may contribute to members exceeding the Cap are:

- Members are contributing to more than one super account – the Cap applies across all super accounts held in the member's name.
- Members underestimate employer contributions.
- If members contribute large one-off amounts.
- Contributions are received late by the fund and count toward the next year's concessional contribution cap.
- Members may not be aware of any employer subsidised fees and insurance premiums paid on their behalf and which count towards the Cap.
- Defined Benefit members may not be aware of the amount of notional taxed contributions paid on their behalf by their employer.

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### Hypothetical case study of person exceeding the cap – worse case scenario

There are many ways in which people can exceed the cap. Sally is a high income earner aged 49 years\*\*. She puts \$90,000 of concessional contributions from salary sacrificing and employer contributions into her super account this year. As the concessional contributions cap is \$50,000, that means the excess \$40,000 attracts a 46.5% tax.

Annual concessional contributions	\$90,000 (salary sacrifice and employer contributions)
Concessional cap	\$50,000
Amount exceeding the cap	\$40,000
Amount of tax on that amount	\$18,600

In addition, Sally has just sold a lot of shares and wants to invest the money into her superannuation. After tax, she puts \$450,000 into her super which is counted as an after-tax non-concessional contribution. By itself, this does not attract any excess tax as it is within the \$450,000 3-year non-concessional contribution cap#. However, the amount of excess concessional contributions must also be added to Sally's non-concessional contributions and this causes Sally to also exceed her non-concessional contribution cap by \$40,000. As such she will incur an additional 46.5% tax on this contribution.

That means Sally is liable for tax on her excess concessional contributions (\$40,000) at 93% because this is the amount that has caused her to breach both caps. Counting excess concessional contributions to the non-concessional contribution cap makes deliberate breaches of the contribution caps unattractive despite the advantageous tax environment afforded to investments of complying superannuation entities.

It works like this:

Non concessional contribution	\$450,000
(Non-concessional contribution + excess concessional contribution) - the non-concessional cap	$(\$450,000 + \$40,000) - \$450,000 =$ <b>\$40,000.</b>
Penalty tax on excess non-concessional contribution	\$18,600
Total tax charged to Sally	\$37,200
Total tax rate on \$40,000 (amount of excess concessional contributions that helped Sally exceed the non-concessional cap)	93%

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\* The concessional contributions cap is currently \$50,000 per year or \$100,000 for members aged over 50.

\*\* As Sally is under age 50, her concessional contribution cap is \$50,000. She does not qualify for the transitional concessional contribution cap of \$100,000 in the current year.

#The annual non-concessional (NCC) cap is \$150,000 but Sally has chosen to take advantage of the ability to use 3 years of the NCC cap up front (i.e. \$450,000).

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**Further information:**

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**About Plum**

Plum Financial Services Limited ABN 35 081 812 731 AFSL 243356, a wholly owned subsidiary of MLC Limited, provides integrated superannuation solutions for medium to large Australian corporations. Purpose-built for the era of member investment choice, Plum's philosophy is about providing members with a meaningful education experience to help build their knowledge and understanding of superannuation so that they are empowered to manage their financial future. One of Australia's fastest growing corporate superannuation providers, Plum now administers more than \$9 billion of committed assets for 82 clients and approximately 130,000 members. More information about Plum is available at [www.plum.com.au](http://www.plum.com.au).

**Note:** An interest in the Plum Superannuation Fund (Fund) RSE R1056945 is issued by the PFS Nominees Pty Ltd (Trustee) ABN 16 082 026 480, AFSL 243357 RSE L0002912. The Fund administrator is Plum Financial Services Limited (Plum) ABN 35 081 812 731 AFSL 243356. This material has been prepared by Plum and it contains information that is general in nature. The information does not take into account your objectives, financial situation or needs. Before acting on the information you should consider whether it is appropriate having regard to your personal circumstances. Plum recommends that you consider the Fund's Product Disclosure Statement (PDS) before you make any decisions about your superannuation. If you need help in making a decision Plum recommends that you seek advice from a qualified financial planner. Neither Plum, the Trustee, nor any other company in the National Australia Group accepts liability whatsoever for any decision that is made on the basis of or in reliance of the information contained in this material. To obtain a copy of the Fund's PDS please call a Plum Member Services Consultant on **1300 55 7586**. Please note that the information contained in this material is current as at January 2008. Any changes in law or policy have not been incorporated.

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