

# Solutions for the self-employed

1 May 2014



**At Prime Super we recognise that if you are self-employed, you have particular needs and questions when it comes to making decisions about saving for your retirement. This fact sheet outlines the key issues that you need to consider if you are:**

- considering superannuation for the first time;
- topping up your existing account in Prime Super;
- consolidating your benefits which are spread across more than one super fund; and/or
- reviewing the amount of your contribution this year based on recent changes to superannuation and tax rules.

**Here are the answers to some key questions you might have.**

## Are you 'self-employed'?

If you are self-employed you may enjoy specific benefits when investing in a super fund. You will be considered to be 'self-employed' for this purpose provided you are not earning more than 10% of your total income as an employee.

If you contract your labor or hire contractors then there are other issues to consider which are explained overleaf.

## How much can I contribute to superannuation?

You can contribute as much as you like into superannuation. There used to be limits imposed called Reasonable Benefit Limits, but these were removed from 1 July 2007.

However, there are tax implications based on how much you contribute to super and claim as a tax deduction, so read on to find out how this might affect you personally.

## How much can I claim as a tax deduction?

Subject to certain conditions and tax implications explained opposite, you can claim a tax deduction for the full amount of your personal contributions to your (complying) superannuation fund.

## How taxation affects your contribution amount

Under superannuation rules which came into effect in July 2007, contributions made to superannuation are identified for tax purposes as either **concessional or non-concessional contributions**. These are important distinctions and will affect how much tax you pay, and your tax and saving strategies.

## Concessional contributions

Concessional contributions are generally contributions for which a tax deduction is or will be claimed by the party making those contributions. (These include personal contributions for the self-employed or employer-sponsored/salary sacrifice contributions.) These concessional contributions are taxed at a standard rate of 15% inside your super fund.

## Concessional contribution cap

There is an annual limit to the amount you can claim as a tax deduction and therefore receive a concessional tax rate. The limit for concessional contributions in 2013-14 is **\$25,000** or **\$35,000** for people aged 59 and over.

In the 2014-15 financial year, if you're aged 48 years or younger on 30 June 2014, you can contribute up to \$30,000 a year in concessional contributions. If you're aged 49 years or older on the 30 June 2014, then you can contribute up to \$35,000 a year in concessional contributions for the 2014-15 year.

Please check the ATO website **www.ato.gov.au** for the most up-to-date information.

## What if I claim a tax deduction for an amount which is higher than the concessional contribution cap?

The consequence of claiming a deduction for an amount higher than the cap is that the excess contribution (above the cap) will be taxed at a rate of 30% plus Medicare levy. This is **in addition** to the standard rate of 15% inside your super fund.

For 2013-14 and later years, any amount over the concessional contributions cap will be included in your assessable income and taxed at your income tax marginal rate. You will also be liable for the excess concessional contributions charge. You will receive a non-refundable tax offset equal to the 15% tax paid by your fund on this amount.

Once the Australian Taxation Office (ATO) assesses that this additional tax is payable, you can elect to pay it either from your superannuation account, from other savings, or both. This 'excess' contribution amount is also counted towards your non-concessional contribution cap which is explained further on.

## Non-concessional contributions

**Non-concessional contributions** are contributions which a member (including the self-employed) pays from after-tax income and does not receive any income tax deduction. Unlike concessional contributions, they are not taxable in the Fund.



These personal member contributions can be made until age 75 but the 'work test' (as explained opposite) will apply after age 65. For contributions made on behalf of a member, including spouse contributions, the work test applies and the age limit is 70. See below for more information.

### Non-concessional contribution cap

There is a limit to the amount of non-concessional contributions that can be accepted by a fund in respect of any member. This is the non-concessional contribution cap. The limits on non-concessional contributions will depend on your age.

#### If you are under age 65

The limit for non-concessional contributions in the 2013-14 year is **\$150,000**.

If you contribute before 30 June 2014, you can bring forward two years' of contributions and contribute up to **\$450,000** at any time for three years.

The limit for non-concessional contributions in the 2014-15 year is \$180,000. If you take advantage of the bring-forward rules during the 2014/2015 year, then you can make up to \$540,000 in non-concessional contributions in one year, representing your non-concessional cap for the current year and following two years.

#### If you are age 65 or above

The same annual limits as outlined above apply, however you must satisfy a 'work test' in order to make after-tax contributions.

The work test specifies you must have been gainfully employed (either employed or self-employed) for at least 40 hours within 30 consecutive days in the financial year the contributions are made.

#### What will happen if I contribute more than the non-concessional contribution cap?

If your non-concessional contributions exceed the cap, the excess amount will be taxed at a rate of 45% plus Medicare levy. Again, this tax is levied on you personally and can be paid either from your superannuation account, from other savings, or both.

#### Exemptions from the cap

There are some contributions which are exempt from the non-concessional contribution cap. These are contributions which are:

- the proceeds from the disposal of eligible small business assets up to a lifetime limit of \$1 million (indexed);
- the proceeds from a settlement of a Total and Permanent Disability claim; and
- the Government co-contribution.

### Managing your contribution caps and tax

It is worth keeping in mind that any concessional contribution amount which exceeds its cap will then count towards your non-concessional cap.

So potentially, that excess can be taxed at 15% (the standard rate in the Fund) plus an additional 30% plus Medicare levy (the tax on the amount over the cap) and, if the non-concessional contribution cap is also exceeded, a further 45% plus Medicare levy is incurred.

Whilst it might seem unlikely that you will have to pay 93% tax it follows that careful planning is required if your goal is to maximise your superannuation savings and tax benefits.

### How do I claim a tax deduction?

Each year you will be required to complete the ATO's *Deduction for Personal Super Contributions form* (NAT 71121) and send it to us. The information you supply on this form is used by the ATO to identify how your contributions are going to be taxed inside the Fund, or levied personally. Once we receive this form from you, we'll send you a confirmation letter.

You can then follow the normal procedures when lodging your income tax return each year, which will include the amount of your personal contribution and the amount of your tax deduction.

### What conditions apply?

**Age:** To claim a tax deduction on your personal contributions you must be under the age of 75.

**The 'work test':** From age 65 and up to age 74 you must also be able to satisfy the 'work test'. The regulations require that to benefit from this superannuation tax environment you need to be working in order to retire from it!

To satisfy the work test you must be 'gainfully employed' which means working for at least 40 hours in a period of not more than 30 consecutive days during the year in which the contributions are made.

'Gainfully employed' includes the self-employed and means "working for gain or reward in any business, trade, profession, vocation, calling, occupation or employment".

**Tax File Number (TFN):** You must supply your TFN to your super fund in order for your contributions to attract the concessional tax rates which apply to superannuation. If you don't, your contribution will be refunded or taxed at the top marginal rate.

### Do I have to contribute to superannuation?

You would be aware that you do not have an obligation to make personal contributions to superannuation like employers do under the Superannuation Guarantee rules.

However you may need to pay contributions on behalf of any people you employ or for any contractors you may hire. You may also be entitled to receive contributions from a client if you contract your labour.

See the following sections for more details about superannuation obligations for contractors and employees.

Even if you don't have to contribute to super, when you know about all the specific benefits for the self-employed, we're sure you will agree it can be a very sound business and personal savings strategy.

## What contributions do I pay if I am a contractor or hire contractors?

If you pay a contractor under a contract, even if they quote an ABN number, then they may be considered your employee and you may have an obligation to pay contributions under the Superannuation Guarantee rules.

Similarly, if you contract your labour then your clients may be considered your employer and have to pay contributions on your behalf under the Superannuation Guarantee rules.

Either of these may apply if the contract is principally for labour which means more than half of the contract is for physical labour, mental effort or artistic effort.

## What are the Superannuation Guarantee rules?

The compulsory contribution rules require that employers pay 9.25% for the 2013-14 financial year of employees' ordinary time earnings into a complying superannuation fund, on time, each quarter. Generally, you have to pay if any of your full-time, part-time or casual employees who earn \$450 (before-tax) or more in any given month.

As at the date of this factsheet, the SG rate is scheduled to increase to 9.5% as at 1 July 2014, however the government have draft legislation in place to delay this increase until the 2016-17 financial year.

If you are unsure of any of your obligations or how much you have to pay, we recommend you refer to our *Employer Guide* or speak to your accountant or financial planner. The ATO website is also a very useful tool for finding out how much you have to pay and for whom ([www.ato.gov.au](http://www.ato.gov.au)).

## How do I make superannuation contributions to Prime Super?

### For the first time

Prime Super offers self-employed individuals and employers two divisions: the Prime division, which is open to all Australians, and the HIP division, which is restricted to those employed in the health and related industries. If you are joining Prime Super for the first time, are self-employed and intend to make personal superannuation contributions, you simply complete a *Member application form* attached to the relevant *Prime Super Short-Form Product Disclosure Statement (Short-Form PDS) – Superannuation*. There is a specific question asking you to nominate that you are self-employed which will ensure your benefits are managed accordingly.

You can contact Prime Super for a *Short-Form PDS* (details overleaf) or get one online at [www.primesuper.com.au](http://www.primesuper.com.au).

If you are also making a contribution on behalf of any employees or contractors (or yourself as an employee if you are an incorporated business), you will need to complete an *Employer application form*, also attached to the *Short-Form PDS*.

The *Short-Form PDS* and the following sections explain your options for remitting your payment.

### If you are already a member of Prime Super

Follow the simple instructions below for your preferred method of payment.

### Your options for paying your contribution by BPAY® or Electronic Funds Transfer (EFT)

If you are used to internet banking, the easiest way to make your payment is by BPAY® or EFT.

For our BPAY® details or the Prime Super bank account, please call our customer service team on **1800 675 839**.

### If you are paying by EFT, you will need to know your Member number to use as a reference or if you are contributing for employees, then use your Employer number.

If you are not sure what your Member or Employer number is you can call our customer service team for help on **1800 675 839**.

If you are making contributions on behalf of employees then you will need to let us know within 24 hours how your contribution payment is to be allocated to each employee. You can do this by completing an *Employee schedule* which is attached to the *Short-Form PDS* or by downloading it from the Prime Super website ([www.primesuper.com.au](http://www.primesuper.com.au)).

### Payment by Direct Debit

You can authorise us to debit your account for the amount of the contributions you intend to pay.

The *Direct debit request form* is available online or you can request one by calling our customer service team on **1800 675 839**. Your local Prime Super Regional Manager can also arrange to get the form to you as quickly as possible.

### Payment by cheque

Until 30 June 2015 you can pay by cheque, making the cheque payable to 'Prime Super.' You can send the cheque to:

Prime Super  
Locked Bag 5103  
Parramatta NSW 2124

If your cheque is for your personal contributions, attach it to your completed *Member application form* or if it is to be lodged separately, please attach it to an *Employee schedule* with your membership details including name, date of birth and Member number. Contributions paid this way for employees would also be attached to an *Employee schedule*. From 1 July 2015 Prime Super will no longer be able to accept payments by cheque.

## On-going contribution payments

If you intend to make annual contribution payments or contribute at irregular times, we will supply you with Contribution Returns to use at your convenience.

For on-going contribution payments for employees you will receive quarterly Contribution Return notices from Prime Super to remind you when payments are due.

For further information about paying contributions for employees and the regular exchange of information to and from Prime Super, please refer to our *Employer Guide* available online, by calling our customer service team on **1800 675 839** or from your local Prime Super Regional Manager or Client Service Consultant.

## The Government co-contribution for the self-employed

If you make a non-concessional contribution to super, satisfy rules relating to age and income, and you lodge a tax return, then you may be eligible for the Government co-contribution.

The amount of the co-contribution will depend on what you earn and it is treated as a non-concessional contribution for tax purposes.

If you are eligible, each year the ATO will send you a letter notifying you that the contribution has been paid to your super fund. You can expect to see the amount paid in your next *Annual Statement* from the Fund.

If you would like more information or to calculate the specific amount of your co-contribution entitlement, you can go to the calculator provided by the ATO at **www.ato.gov.au**. You can also call our customer service team on **1800 675 839** for current information.

## Low income super contribution (LISC)

The LISC is 15% of the concessional (before-tax) contributions you or your employer makes from 1 July 2012, if you earn less than \$37,000. The maximum you can receive in a financial year is \$500. The Federal Government has indicated that the LISC may not apply for the 2013-14 financial year and subsequent years. Please refer to the ATO website at **www.ato.gov.au** for current information.

## Combining your superannuation accounts

If you have superannuation in more than one fund, then it makes sense to combine your savings into one account. In the long run, it will save you time and money.

Once you complete our *Rollover your super form*, we will organise it all for you.

You can ask your Regional Manager or our customer service team (**1800 675 839**) for the form and for help with any questions. You can also get a form online at **www.primesuper.com.au**.

## Why should I provide my TFN?

This is an opportunity to remind you how important it is to quote your TFN to your superannuation fund. However, you should know that it is not compulsory, nor is it an offence if you choose not to provide it.

However, if you don't your contributions will either be refunded back to you, or in the case of concessional contributions you will be levied the top marginal rate of tax.

If you are a new member, then there is appropriate provision to provide your TFN on the Member application form.

## Why should I join Prime Super?

Prime Super prides itself on providing personal support to help you achieve your retirement goals. We are a 'not for profit' fund with more than 154,000 members and more than \$2.3 billion in members' assets.

Some of the benefits for self-employed members include:

- No joining fee.
- Low administration fees.
- We do not pay commissions to distributors.
- Default insurance cover and a range of industry leading insurance cover options.
- A range of investment choices.
- Local support across Australia.
- Retirement income stream options.
- Support services including commission-free financial planning.

## Additional help!

Write to us at:	Locked Bag 5103 Parramatta NSW 2124
Helpline:	1800 675 839
Fax:	1800 023 662
Overseas callers:	+61 2 9374 3967
Email:	administration@primesuper.com.au
Website:	<b>www.primesuper.com.au</b>

### Receive financial advice!

At Prime Super, we provide members with limited financial advice over the telephone. A planner may be arranged to help you determine which superannuation contribution, investment or insurance options are right for you, based on your individual circumstance and needs. And it won't cost you a thing. Call us today on **1800 675 839**.

If you require further advice and potentially a full financial plan, we can refer you to a financial planner. Prime Super has arrangements with a small number of licensed financial planners who offer low cost, commission-free financial advice and the first consultation with a planner is at no charge. Call us today on **1800 675 839**.