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# TO USE OR DEFER CONCESSIONAL SUPER CONTRIBUTIONS

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**W**ith the ability to use catch-up concessional contributions starting from 1 July 2019, we've been asked the following question by an adviser.

**If my client realises a large capital gain next financial year, should they defer using their concessional contributions cap this year and take advantage of the catch-up concessional contributions next year when they will have more assessable income?**

Before looking at the detail, let's look at the rules in relation to catch-up concessional contributions.

From 1 July 2018, clients can carry forward any unused amounts of their concessional contributions cap. The unused amounts will be carried forward on a rolling basis for five years. From 1 July 2019, providing their total super balance at 30 June of the previous financial year is less than \$500,000, they can utilise the unused concessional contributions in addition to the standard concessional contributions cap. Any unused concessional contributions prior to 1 July 2018 cannot be carried forward.

## Example

Declan is an employee and receives \$10,000 of employer contributions in the 2018/19 financial year. He makes no additional concessional contributions. Declan has \$15,000 of unused concessional contributions cap in the 2018/19 financial year which can be carried forward for five years. In the 2019/20 financial year, Declan can have total concessional contributions of \$40,000. This consists of the annual concessional contributions cap of \$25,000 for 2019/20 and \$15,000 of the unused concessional contributions cap from the 2018/19 financial year.

## To use or to defer?

Following the explanation of the rules in relation to catch-up concessional contributions, the section below analyses the potential gains and losses caused by deferring catch-up concessional contributions at different income levels.

### Tip

The current financial year's concessional contributions cap is used first, followed by any carried forward unused concessional contributions cap from the earliest financial year.



### The quote

*The current financial year's concessional contributions cap is used first, followed by any carried forward unused concessional contributions cap from the earliest financial year.*

**Question: If my client realises a large capital gain next financial year, should they defer using their concessional contributions cap this year and take advantage of the catch-up concessional contributions next year when they will have more assessable income?**

The decision to defer needs to be considered on a case-by-case basis. A deferral is not always the best decision as several factors influence the outcome, including:

- For employees, their current level of employer super contributions and their resulting unused concessional contributions cap which is available to carry forward
- The client's 2018/19 marginal tax rate compared to their expected 2019/20 marginal tax rate
- Division 293 tax (up to an additional 15% tax on concessional contributions for higher income earners)
- Available tax offsets (particularly the low and middle income tax offset)
- The effects of investment returns.

The following tables compare a:

- Wage/salary earner (who receives 9.5% employer super contributions)
- Sole trader (who receives no employer super support).

The tables detail the impact of deferring extra concessional contributions to the 2019/20 financial year where the client anticipates a significant increase in income. The results also consider the impact on investment returns by having more money invested in the non-super environment for an assumed period of 12 months (using an estimated return of 6%).

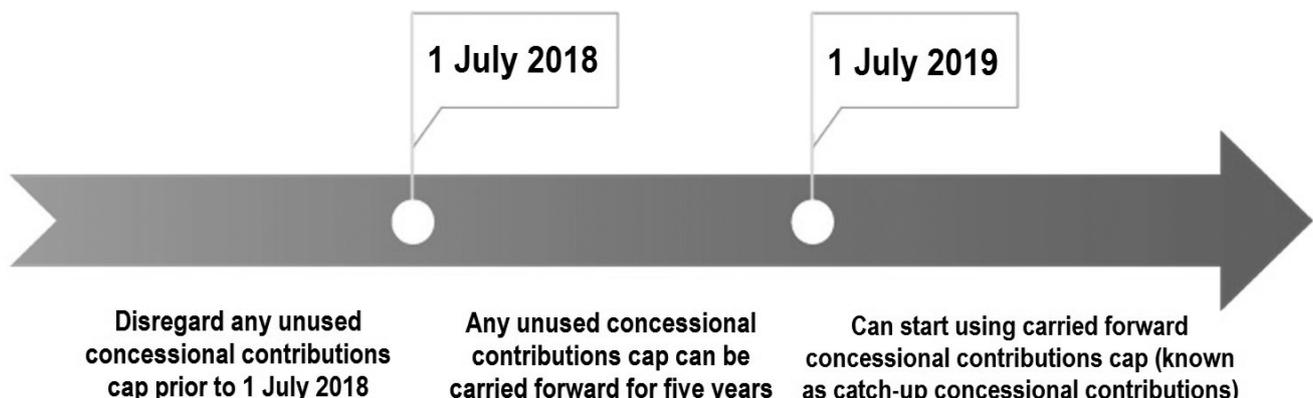
**Table 1. \$50,000 of income**

Employee/sole trader	Capital gain	Benefit of deferring extra concessional contributions to 2019/20
Employee	\$50,000	\$908
Sole trader	\$50,000	\$1,428
Employee	\$100,000	\$1,950
Sole trader	\$100,000	\$2,678
Employee	\$250,000	\$294
Sole trader	\$250,000	\$553

**Table 2. \$75,000 of income**

Employee/sole trader	Capital gain	Benefit of deferring extra concessional contributions to 2019/20
Employee	\$50,000	\$563
Sole trader	\$50,000	\$100
Employee	\$100,000	\$341
Sole trader	\$100,000	\$430
Employee	\$250,000	-\$910
Sole trader	\$250,000	-\$1,325

**Figure 1. Catch-up concessional contributions timeline**



**Table 3. \$100,000 of income**

Employee/sole trader	Capital gain	Benefit of deferring extra concessional contributions to 2019/20
Employee	\$50,000	-\$130
Sole trader	\$50,000	\$394
Employee	\$100,000	\$136
Sole trader	\$100,000	\$19
Employee	\$250,000	-\$1,310
Sole trader	\$250,000	-\$1,731

**Table 4. \$150,000 of income**

Employee/sole trader	Capital gain	Benefit of deferring extra concessional contributions to 2019/20
Employee	\$50,000	\$514
Sole trader	\$50,000	-\$531
Employee	\$100,000	\$634
Sole trader	\$100,000	\$1,469
Employee	\$250,000	-\$979
Sole trader	\$250,000	-\$2,281

## Conclusion

Based on the tables above, there is only a limited benefit for a client to defer using the 2018/19 concessional contributions cap where there will be a significant increase in assessable income in the 2019/20 financial year. In certain circumstances, there may be a benefit but in other circumstances the benefits may be minimal or even negative. Our analysis assumes available catch-up concessional contributions are used in the 2019/20 financial year. An individual may have more catch-up concessional contribution amounts available in future financial years which may impact the outcome. As with many financial planning strategies and as stated previously, you will need to consider this on a case-by-case basis.

The above analysis is based on a client who has the capacity to use their full concessional contributions cap each year. For those with interrupted work patterns, irregular income, or a change in focus towards saving for retirement, catch-up concessional contributions do provide a significant opportunity for clients.

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