

# THE LESSER KNOWN TAX ADVANTAGES OF EXCEEDING THE CONCESSIONAL CONTRIBUTION LIMITS IN SELF MANAGED SUPER



With the Federal Labor Government halving Concessional Contributions limits for Superannuation in 2009/10, many Australians have found themselves receiving excess contribution tax bills for unintentionally exceeding these reduced limits. It is understandable that these people may feel hard done by with this situation as saving for retirement has effectively become more difficult. To make matters worse, this has come at a time where we have entered a lower return environment than many Australians became accustomed to in the pre-GFC period.

At Bailey Capital Management we have developed a strategy for our high income earning clients to use their Self Managed Super Fund to purposefully exceed the Concessional Contribution limits. Why? In order to gain a substantial tax advantage; whilst maintaining their ability to save as much as they can for retirement on a concessional basis. This is obviously a strategy that is of interest to Accountants as it concerns SMSFs and the improvement of the client's overall tax position.

So what is it all about? The strategic planning opportunity comes about where a client has Life and Total & Permanent Disablement Insurance premiums that are paid for by their SMSF. Clients who do not have these insurances inside their Fund need to consider moving their cover to this environment (based on the appropriateness of this strategy with regard to their personal situation). Bailey Capital Management assists clients with this matter on a regular basis.

## Case Study

*Jeff and Mary are in their mid 40s and have two children in school. They live in the Eastern Suburbs of Adelaide and have a large mortgage. As their current and future financial situation is dependant on Jeff's high income they have recognised the need to protect their family's interests with life insurance in the event that Jeff was to prematurely die or become unable to earn his income. Like many high income earning clients, Jeff and Mary value professional advice and are always looking to reduce their tax bill as much as possible. They have therefore recognised the benefits of Self Managed Superannuation and Jeff makes his maximum concessional contribution of \$25,000 each year to help save for retirement in a tax effective manner.*

*On consultation with Bailey Capital Management, Jeff decides to pay his Income Protection premiums from his income to maximize the tax deduction against his 46.5% personal tax rate. He then decides to place his Life and Any Occupation TPD insurance inside their SMSF. To pay for this \$10,000 premium, Jeff makes an additional tax deductible contribution to the fund of \$10,000. This is done in addition to his normal concessional contribution of \$25,000. Jeff therefore has a personal tax deductible contribution to the fund each year of \$35,000. Jeff likes the idea of paying for his insurance with the Super Fund because if the cover was owned in his name and paid for directly by him, Jeff would have to earn \$18,691 to pay the \$10,000 premium. The money Jeff is saving for their retirement is also not being used to pay for his insurance.*

*When his SMSF receives his contributions it obviously pays 15% tax as income to the fund. As Jeff's insurance is an expense to the fund, it is able to claim a deduction for the \$10,000 premium, meaning the 15% tax on this portion of his contribution is neutralised. As Jeff has exceeded his concessional contribution limit he must pay Excess Contributions Tax of \$3,150, or 31.5% of the \$10,000 excess contribution. This means his insurance has cost him*

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only \$13,150 in before tax dollars. If the insurance was held outside of his fund and paid for directly by him, Jeff would have had to pay \$18,691. In this instance Jeff's tax saving as a result of intentionally exceeding the contribution limits is \$5,542. Obviously the higher Jeff's premiums the greater the tax saving and the more valuable this strategy becomes.

### Summary

	Gross Income	Tax	Tax offset	Net tax
Pre-tax income required to pay \$10,000	\$18,692	\$8,692	\$0	\$8,692
Make deductible contribution to super instead	\$10,000	\$1,500	\$1,500	\$0
Excess Contribution taxed at 31.5%	\$10,000	\$3,150	\$0	\$3,150

### Cost to Member

Contribution (insurance premium)	\$10,000
Excess contribution tax @ 31.5%	\$3,150
Net cost to member	\$13,150
<b>Tax saving (\$18,692 - \$13,150)</b>	<b>\$5,542</b>

While this is an example of the value Bailey Capital Management clients receive, it is obviously a small (but important) component of the overall advice and value we deliver. It also demonstrates the value that can be delivered when a client's situation is looked at from a holistic strategic perspective rather than a transactional basis

Other areas that clients like those in the case study may potentially benefit from include goal setting and tracking, investment strategy development, active portfolio management, education funding, debt reduction, estate planning and more. These areas of advice make up an overall strategic plan that would be designed and maintained in order to manage the client's progress towards achieving their stated goals.

As always, our advice and services are provided on a flat fee for service basis to ensure clients get what they pay for, and can trust that our advice is given with their interests in mind. For more information about this strategy or Bailey Capital Management's services please contact Evan Bailey on 8212 5550.

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*The information in this document is not personal advice and is general in nature. People should always seek professional advice with regards to their personal financial situation to ensure strategies are appropriate for them. Failure to do so may result in financial loss and unintended consequences.*