

Contribute to super to offset capital gains

If you're an employer or self-employed, contributing to super is not just a good way to save for retirement and get a good tax deduction, but also an effective way to offset capital gains.

Employers and self-employed persons can make pre-tax (concessional) contributions to super and claim a 100% tax deduction.

To be classified as self employed for tax purposes, you must earn less than 10% of your assessable income from an employer. This is called the ten percent rule. If your employment income goes beyond 10%, you can salary sacrifice this income to below the 10% level and keep your self-employed status. This will allow you to claim a tax deduction on your concessional contributions.

These contributions reduce your taxable income including any taxable capital gains. This means you can offset or even eliminate CGT by making concessional contributions to superannuation. Also, you will be saving more towards your retirement and the tax rate on investment earnings in super is likely to be less than the marginal tax rate you pay on earnings outside super.

For example

Lisa recently sold an investment property and realised an \$80,000 taxable gain. After the 50% CGT discount, Lisa's taxable capital gain is \$40,000. As Lisa's assessable income is \$36,000, she is in the 30% tax bracket (2009-10) so the tax on her capital gain will be 30% plus 1.5% Medicare levy, which totals \$12,600.

If Lisa contributes \$12,600 or more to super, she will wipe out any tax on her gain. She'll have to pay the 15% contributions tax but with the tax savings, she'll still be ahead – and have more money in her potentially tax-free retirement nest egg.

Before strategy		After strategy	
Assessable capital gain	\$80,000	Assessable capital gain	\$80,000
Less: 50% CGT discount	\$40,000	Less: 50% CGT discount	\$40,000
Taxable capital gain	\$40,000	Taxable capital gain	\$40,000
		Less: Deduction for contribution to super	\$12,600
		CGT saved	\$12,600
		Less: Contributions tax	\$1,890
CGT payable	\$12,600	Net tax saving	\$10,710

Assumptions: Lisa is self-employed and has held the property for more than a year. She adopts the 50% CGT discount method, has no capital losses and is well within the concessional contributions cap of \$25,000. \$6,000 tax free threshold disregarded.

Considerations

- You must be eligible to contribute.
- You must meet the 10% rule requirement.
- If you do not meet the 10% rule, you must ensure you have an effective salary sacrifice arrangement in place (refer to salary sacrifice factsheet.)
- To offset your capital gain, you must make the contribution in the same financial year in which the asset is sold.
- You must notify your super fund of your intention to claim a tax deduction.
- If you are under age 50, the most you can claim a tax deduction for is \$25,000 a year.
- However, if you are over age 50, the most you can claim a tax deduction for is \$50,000 a year
- Your funds are preserved in Super until you satisfy a condition of release

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Any questions? Call 1800 046 166 or visit: www.moneysolutions.com.au