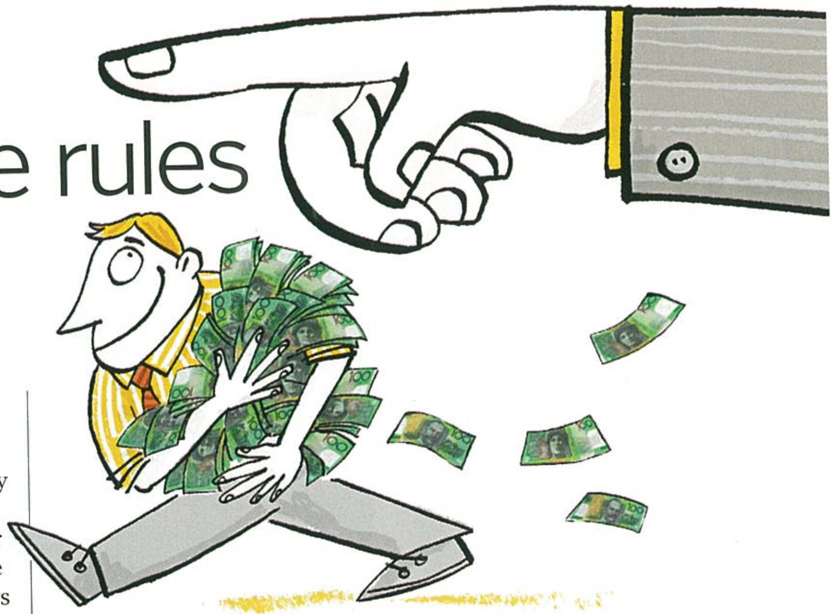
Just follow the rules



A savings booster is unchanged, says Peter Freeman

EVEN AFTER THE RECENT announcement of the proposed changes to the taxation of large account-based pensions, the ability to make non-concessional super contributions can be a useful tool for boosting your super savings. Kevin Smith, director of the Professional Super Advisers, says members of self-managed super funds make a disproportionate use of this type of contribution partly because they are generally wealthier and a contribution to a SMSF remains under the contributor's control.

"Non-concessional contributions are often financed by an inheritance or by the sale of an investment property," he adds.

While non-concessional contributions are those that don't deliver any upfront tax break to the contributor, their value comes from the concessional tax treatment of earnings made within a super fund.

SMSF members should familiarise themselves with all the key rules before making large non-concessional contributions.

The main ones are the fact that, provided you are under 65 at the start of the financial year, you can make non-concessional contributions totalling $150,000 during the year and also bring forward up to an extra two years' allowance so as to make a $450,000 contribution in a single year.

Once you turn 65, however, you have to work at least 40 hours in any 30-day period to be eligible to make non-concessional contributions. When you turn 75 you can no longer make non-concessional contributions. But there are a number of other, more subtle rules that apply, especially to the "bring forward" rule.

Important points to note about this bring-forward provision are the fact that:

- If you use up all of the allowable $450,000 in one, or possibly two, financial years you can't, in the immediately following year, start the process all over again. You have to wait another year before you can restart the bring-forward process.
- You can't use unused non-concessional contribution allowances of previous years; you can only bring forward the annual $150,000 allowance of each of the next two years.
- If you are eligible to access the bring-forward rule, this concession is automatically triggered if you make non-concessional contributions of more than $150,000 in a financial year, even if this is inadvertent.
- If you are under 65 at the start of the financial year you can access the bring-forward provision but, as with the rule governing all non-concessional contributions by those aged 65 to 74, if you contribute after you turn 65 you have to satisfy the work test outlined above.

Note, if you made a non-concessional contribution of $450,000 on June 30 this year, under the bring-forward rule you would be able to make another $450,000 non-concessional on July 1, 2015. This means you could make total non-concessional contributions of $900,000 in just two years.

It is important to understand the rules. Any breach can result in a huge fine, excess contributions currently being hit by penalty tax of 46.5% on the amount over the cap. Smith says that, before making a non-concessional contribution, you should double-check the size and timing of any previous non-concessional concessions. This includes any concessional contributions that may have been reclassified by the tax office as non-concessional.

Peter Freeman is a former managing editor of The Australian Financial Review *and edited its* Smart Money *section.*

SUPER TIP

According to the tax office, one of the most common DIY super compliance mistakes is to breach the 5% ceiling on investments in in-house assets.

In-house assets are simply assets connected to one of the fund's trustees or a related party – such as loans to members, investments in related trusts or assets leased by a trustee to a related party. There are important exceptions to the rule, such as commercial properties leased to a related party at arm's length. But penalties for breaches can be severe, so it's essential to get expert advice before you invest.

MICHEL STREICH