

Solutions for the self-employed



Part of your Community

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. We also know that if you live in regional or rural Australia you may have different needs and questions to others based in our capital cities.

If this sounds like you, then 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.

There's never been a better time to get started and our goal is to help you answer all of your questions so that you can get on with things, knowing you have your savings strategy in place.

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.

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 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 the 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 those contributions for which a tax deduction is claimed. (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 a limit to the amount you can claim as a tax deduction and therefore receive a concessional tax rate. The amount of this 'cap' (for individuals under age 50) in 2011-12 is **\$25,000**.

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 31.5% (including Medicare). This is **in addition** to the 15% paid by your super fund.

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.

Transitional concessional contribution cap

There are some special transitional arrangements available to anyone age 50 and over during the period from 1 July 2007 to 30 June 2012.

If this applies to you then you can claim a deduction for contributions up to **\$50,000** for the 2011-12 financial year. This amount is not indexed.

From 1 July 2012, if you have less than \$500,000 in super, you can contribute up to \$50,000 p.a. without incurring excess tax.

These rules are designed to help those who are nearing retirement and may have been adversely affected by the changes in pre-existing rules.

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.

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 and the limit for 2011-12 is **\$150,000**.

The fund is required to return any contributions above the cap or any non-concessional contribution if the member has not quoted their Tax File Number (TFN) within 30 days of making their contribution.

Contributions above the concessional cap also count towards the non-concessional cap.

There is flexibility to make higher non-concessional contributions for people under age 65 which allows you to bring forward two years worth of non-concessional contributions. This means that you can contribute **\$450,000** at any time over three years without exceeding the cap.

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 46.5%. 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 31.5% (the tax on the amount over the cap) and, if the non-concessional contribution cap is also exceeded, a further 46.5% is levied.

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.

Indexation of contribution caps

The concessional contribution cap is indexed to Average Weekly Ordinary Time Earnings (AWOTE) with minimum increments of \$5,000. This means that the cap may not necessarily change every year.

The non-concessional contribution cap is always three times the amount of the concessional cap.

Indexation does not apply to the five year concessional cap of \$100,000 a year for those 50 and over between the 2007 and 2012 financial years.

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".

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% 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 are aged between 18 and 69 (inclusive) and are paid \$450 (before-tax) or more in any given month.

If you are unsure of your obligations or how much you have to pay, we recommend you 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).

How do I make my superannuation contributions?

For the first time

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 current *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.

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).

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

You can, of course, pay by cheque and make it 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*.

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.

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.

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*.

Insurance

When you join Prime Super, you are entitled to two units of Death (including Terminal Illness) and Total and Permanent Disability (TPD) cover (default cover).

Your default cover commences the day we receive the first contribution to your member account.

In most instances, default cover may not be enough to protect you or your family against illness, injury, death or unemployment.

You can apply to increase your level of cover either on the *Member application form* on joining, or at any time by completing an online application (you must be registered for a secure online account to do this) or by filling in an *Insurance application/Variation form*.

Prime Super also offers members access to Income protection and Trauma insurance. For more information about the insurance options available to Prime Super members please refer to our *Short-Form PDS – Superannuation*, the *Why choose Prime Super?* brochure and our *Are you adequately covered?* guide.

Prime Super is your Fund

Prime Super prides itself on being the 'super fund' for rural and regional Australians. We are a 'not for profit' fund with more than 130,000 members and more than \$1.2 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.
- A range of industry leading insurance cover options.
- A range of investment choices.
- Local support in regional and rural communities.
- 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:	www.primesuper.com.au

Receive FREE 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's free. 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 financial planners are representatives of Industry Fund Financial Planning[^], which offers low cost, commission-free financial advice and the first consultation with a planner is **at no charge**. Call us today on **1800 675 839**.

[^] Industry Fund Financial Planning is a division of Industry Fund Services Ltd, ABN 54 007 016 195, AFSL No 232514

This fact sheet provides general information only and may not be relied on as personal legal or financial advice. Before acting on this information, you should consider the appropriateness of this information having regard to your personal objectives, financial situation or needs. Prime Super ABN 60 562 335 823 is a Regulated Superannuation Fund issued by Prime Super Pty Ltd ABN 81 067 241 016, AFSL 219723. A Short-Form PDS can be obtained from the issuer by calling **1800 675 839**.