



SUPERANNUATION

Co-Contribution Opportunity for Self-Employed Individuals

From 1 July 2007, the Government extended the eligibility for the superannuation co-contribution to include self-employed individuals. Self-employed individuals have not previously had access to the co contribution unless 10 per cent or more of their income was attributable to eligible employment. For example, those who ran their business through a company and the company paid them salary or wages.

Now you are considered to be eligible to receive the co-contribution if you satisfy all of the following conditions:

- You make a personal non-concessional super contribution to a complying super fund;
- 'total income' (assessable income plus reportable fringe benefits) is less than \$58,980;
- 10 per cent or more of total income is from carrying on a business, eligible employment or a combination of both;
- You do not hold an eligible temporary resident visa at any time during the year;

- You lodge an income tax return for the year of income; and
- You are less than 71 years old at the end of the year of income.

The maximum co contribution is available to those individuals on incomes up to the lower threshold of \$28,980 (previously \$28,000), with the payment phasing out at the upper threshold of \$58,980 (previously \$58,000).

The formula for calculating a person's potential co-contribution based on their total income is:

The amount equal to the lesser of:

- non-concessional contribution (NCC) x 1.5, or
- \$1,500 - [0.05 x (total Income - \$28,980)].

The following table provides a summary of the minimum contribution required to be eligible for the co-contribution from 1 July 2007, based on 'total income':

Total income*	Co-contribution	Minimum non-concessional contribution (NCC)
\$28,980 or less	\$1,500	\$1,000
\$30,980	\$1,400	\$933
\$32,980	\$1,300	\$867
\$34,980	\$1,200	\$800
\$36,980	\$1,100	\$733
\$38,980	\$1,000	\$667
\$40,980	\$900	\$600
\$42,980	\$800	\$533
\$44,980	\$700	\$467
\$46,980	\$600	\$400
\$48,980	\$500	\$333
\$50,980	\$400	\$267
\$52,980	\$300	\$200
\$54,980	\$200	\$133
\$56,980	\$100	\$67
\$58,980	\$0	\$0

* Total income is based on assessable income plus reportable fringe benefits for an employee. For a self-employed individual, total income is reduced by allowable business deductions.

The 10 percent rule

In determining whether an individual satisfies the 10 per cent rule (i.e. 10 per cent or more of total income must be earned from eligible employment, carrying on a business or a combination of both), total income is not reduced by the deductions that result from carrying on a business. Unlike total income which is based on net income, the 10 per cent rule is calculated as a gross figure, designed to ensure that self-employed individuals with low incomes or low profit margins are not disadvantaged by arbitrarily failing the test.

Example:

The following example is given in the Explanatory Memorandum of the Tax Laws Amendment Simplified Super Act 2006:

The use of the net and gross concepts of income mentioned above ensures that a self-employed individual with gross business receipts of \$43,000, business deductions of \$41,500, and other personal investment income of \$15,000, would receive a co-contribution because the percentage of gross income from employment or carrying on a business would be 74 per cent ($\$43,000 / (\$43,000 + \$15,000)$) and the net income for threshold purposes would be \$16,500 ($\$43,000 + \$15,000 - \$41,500$).

- imputation credits - \$2,800;
- capital gain - \$2,000 (after 50 per cent discount)

During the financial year, Emily makes a contribution to super of \$5,000 and intends to claim a full deduction on this when completing her tax return.

In determining whether she may be eligible for the co-contribution, she needs to satisfy three stages.

1. Total income less than \$58,980 pa.
Emily's total income for co-contribution purposes is: $(\$60,000 - \$28,000) + \$6,000 + \$2,800 + \$2,000 = \$42,800$
2. Minimum 10 per cent income from carrying on a business.
Emily's income from carrying on a business is $\$60,000 / (\$60,000 + \$6,000 + \$2,800 + \$2,000) = 84.75$ per cent.
3. Make a personal non-concessional contribution to super.

Based on her total income of \$42,800, Emily needs to make a personal NCC of at least \$539 in order to receive the maximum co-contribution of \$809.

As Emily is self-employed and does not derive any income from eligible employment, she is eligible to claim a 100 per cent tax deduction on her super contributions up to her concessional cap of \$50,000 per year. However, she will only be eligible to receive the co-contribution if she makes a non-concessional contribution to super. Therefore, if Emily wants to receive the co-contribution, she should only claim a deduction on \$4,461 of her super contribution, and leave the balance as a non-concessional contribution.

If you are self employed take advantage of the opportunities of the co-contribution and make sure that you make a non-concessional contribution by the 30 June 2008. As you may not know whether you are eligible for the

Case study – self-employed

Emily is aged 34 and self-employed as a personal trainer. Her income details for 2007/08 are as follows:

- gross business income - \$60,000;
- business deductions - \$28,000;
- dividends - \$6,000;

co-contribution prior to this date, due to the uncertainty of your total income less business expenses, it is still important to make the contribution.

When your accountant prepares your individual tax return and your net business income plus investment income is above the upper threshold of \$58,980, you can always consider a lodging a section 290-170 notice (tax deductibility notice for the super contribution) for the contribution made and reduce personal taxation.

Superannuation despite what the government says is a very complex area, however for those that understand the benefits and implement sound strategies the rewards can be great.

If you would like to take advantage of our free consultation or would like to know more about our services please contact us on (07) 3832 6020, Email info@bridgewaterafs.com.au or visit our website on <http://www.bridgewaterafs.com.au>

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