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How to stop super sting

Keep a close eye on contribution limits to avoid penalties, writes **Anthony Keane**

PEOPLE who pump too much money into superannuation have been penalised more than $350 million in extra taxes in recent years.

Expected changes to super contribution limits from July 1 add more confusion to our constantly changing super system, but understanding how your money is paid in can help you prevent financial pain.

Latest figures from the Australian Taxation Office show that excess contributions tax liabilities for 2007-08, 2008-09 and a small part of the 2009-10 financial year totalled $347 million, with more than 41,000 people caught out.

Excess contributions are taxed between 46.5 per cent and 93 per cent, and financial experts say many of those stung have made accidental mistakes or suffered from administration errors by their employer or super fund.

The annual cap on concessional contributions, such as salary sacrifice and compulsory employer payments, is $25,000 for anyone under 50 and $50,000 for over-50s, although from July 1 the over-50s limit is set to be halved, depending on your total super balance.

Andrea Slattery, chief executive of self-managed super industry group SPAA, says it's not just a tax on the rich.

"Sixty-one per cent of people with an excess contributions tax bill are in the lower to middle incomes bracket (below $80,000)," she says.

New legislation is before Parliament to give savers a once-only chance to get some excess contributions refunded – and prevent the extra tax bill – if they breach the cap by less than $10,000, but Slattery says it does not go far enough.

Marinis Financial Group financial strategist Theo Marinis says excess contributions tax is "the worst tax ever invented".

"Good people are being penalised huge amounts for simple mistakes. It's unfair," he says.

Marinis says people approaching retirement are at most risk because many are rushing to grow their nest egg through salary sacrifice after their children have left home and their mortgage is paid off.

An ATO spokeswoman says many people exceed the caps because they make incorrect assumptions about when money is paid into their super.

"Another scenario we have seen concerns the timing of bank transfers, where people have not allowed enough time before the end of the year."

PREVENT A TAX-SLUG SHOCK

- Monitor your pay slip, particularly salary sacrifice amounts and employer contributions.
- Work out your annual super contributions well before the June 30 deadline, preferably by April or May.
- Excess contributions tax applies per person, not per fund, so be careful if you have multiple funds.
- Don't expect your fund to notify you of any excess contributions.
- There's a free ATO fact sheet, super contribution caps, at ato.gov.au or telephone 1300 720 092.
- If uncertain, get advice.

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Picture: Sharon Walker

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