PMD Financial Advisers

Splitting superannuation contributions

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A super splitting strategy allows single income families to share the ongoing accumulation of superannuation in a similar way to dual income families.

Certain superannuation contributions can be split with your spouse, either within the same fund or to a different fund, providing your super fund permits it. It's important to note, however, that only the contributions can be split, not the account balance itself and any contributions that are split are counted towards the contributing spouse's contribution cap, not the receiving spouse's cap.

The applicant's spouse is held to be the 'receiving spouse' and must be a person who is either married to the applicant, or is a de facto partner (same or opposite sex). To receive a split contribution, the receiving spouse must be under preservation age or, if between preservation age and 64 years, needs to have met certain conditions, such as, not being retired.

Why split?

- Super splitting allows for a low income earning or non-working spouse to increase their superannuation balance and can therefore protect spouses from future changes to taxes and/or super rules.
- Access to two low-rate caps of $195,000 per person (2016/17), for those aged between preservation age and 60 when making lump sum withdrawals from taxable components.
- Super splitting can transfer benefits to an older spouse who may later be able to draw upon tax-free super lump sums from age 60 or commence a tax-effective income stream.
- To improve Centrelink benefits, splitting super contributions from an older spouse to a younger spouse could shield the superannuation assets of the younger spouse from the means test.

Which superannuation contributions can be split?

You can only split the following concessional contributions:

- contributions paid by an employer, including superannuation guarantee and salary sacrifice amounts
- personal contributions for which an income tax deduction has been claimed.

What is the maximum amount that can be split?

The maximum amount of contributions you can split in a financial year, is the lesser of:

- 85 per cent of your concessional contributions[1], or
- concessional contributions cap for that financial year.

When can contributions be split?

You can apply to split contributions either:

- in the following financial year (the application must be made between 1 July following the end of the financial year in which the contributions were made and the following 30 June)*, or
- during the financial year in which the contribution is made if the superannuation account is to be rolled over, transferred or cashed before the end of that financial year.
- * **Note:** You may want to check with your fund if the application must be received by a certain date.

Which contributions cannot be split?

You may not split the following contributions:

- non-concessional, also known as after-tax contributions, and
- concessional contributions that have been rolled over, transferred or cashed in.

Case study

Harry, aged 48, is working full-time and is married to Ruth, aged 47, who is working part-time. They both plan to take their super as a cash lump sum in ten years (ie before either of them reaches age 60). Harry and Ruth currently have $200,000 and $10,000 in their respective superannuation funds, consisting entirely of taxable component.

Given Harry's superannuation balance already exceeds the $195,000 (FY 2016/17) low-rate cap, he arranges to split 85 per cent of his employer's contributions into Ruth's super account in each of the next ten years until she reaches 57. The low-rate cap determines the amount of 'taxable super components' you can withdraw tax-free, once you have reached your preservation age. Although it is indexed each year, for purposes of this illustration, we will assume that the $195,000 stays the same over the next ten years.

At the end of the ten year period, Ruth decides to retire from work and cashes out her super. At this stage Ruth's super benefit is worth a total of $140,000. This includes $100,000 of contributions that have been split into her account together with related earnings over the ten year period. Because the total amount of $140,000 is within the low rate cap, Ruth will pay no lump sum tax when cashing out her benefit.

Conversely, if the $100,000 in split contributions and related earnings had stayed in Harry's super account, he would have paid tax at the rate of 17 per cent (including Medicare levy of 2 per cent) on the amount over the low-rate cap, had he chosen to take his super as a cash lump sum before age 60. By using a contribution splitting strategy, Harry and Ruth will save $17,000 in lump sum tax as a couple.

	If retained by Harry	If split to Ruth
Split contributions	$100,000	$100,000
Lump sum tax rate %	17%	Nil
Lump sum tax payable $	$17,000	Nil

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1 The contributions tax rate is up to 30 per cent for individuals with income over $300,000 pa. This may lower the amount of concessional contributions that can be split. You can still split 85% of contributions.

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