Understanding how SMSF contributions work

Contributions can play an essential role in a self-managed superannuation fund (SMSF). Your SMSF contributions can be made in two ways – either by cash or an asset (known in the trade as 'in specie' contribution).

Typically, your SMSF can accept:

- employer contributions
- personal contributions
- salary sacrifice contributions
- super co-contributions
- eligible spouse contributions.

The Australian Taxation Office (ATO) is big on paperwork and record keeping for SMSFs. As a trustee you are responsible for documenting all your contributions and rollovers – including the amount, type and breakdown of components. Generally you'll also need to allocate your contributions to your SMSF members' accounts within 28 days of the end of the month in which you received them.

Defining allowable contributions

The ATO has set minimum standards for accepting contributions.

- The type of contribution – for example, you can accept mandated employer contributions such as super guarantee contributions from a member's employer, at any time.
- Your age – for example, if you're 75 or over you can't make a non-mandated contribution.
- Whether you quote your tax file number.
- Whether the contribution exceeds your SMSF-capped contributions limit.

Mandated employer contributions

Always popular with employees, mandated employer contributions are defined by the ATO as, "those made by an employer under a law or an industrial agreement for the benefit of a fund member". Super contributions absolutely fall within this category.

The good news is you can say yes to mandated employer contributions to your SMSF at any time, regardless of your age or the number of hours you're working at that time.

By age and circumstance

Your ability as trustee of the SMSF to say yes to accept a non-mandated contribution depends entirely on your age and circumstances. Let's unpack that.

- If you are under 65 years you can generally accept all types of contributions, bearing in mind your SMSF contribution cap. There is no work test.
- If you're between 65-74 there is a work test. You can say 'yes' if you are gainfully employed for at least 40 hours in period of 30 consecutive days in each financial year in which the contributions are made. The ATO is strict on its definition of what constitutes 'gainfully employed', as in paid work. Spouse contributions can't be accepted after you turn 70. You can also accept mandated employer contributions.
- If you're 75 or over you generally cannot accept any contributions apart from mandated employer contributions.

‘In specie’ contributions

‘In specie’ contributions, refers to transferring assets such as shares or a commercial property direct to the SMSF rather than contributing cash. There are very strict rules on what can and can’t be transferred when it comes to in-house assets – for example, residential property you own cannot be transferred. If in doubt always seek expert advice.

Contribution caps

Contribution caps are applied for a number of contributions types made for SMSF members in a financial year.

The two major ones are the non-concessional cap which applies to after-tax contributions and the concessional cap which applies for those contributions for which a tax-deduction has been claimed:

- Concessional contributions are capped at $25,000 per financial year.
- Non-concessional contributions are capped at $100,000 per financial year, however if you are under 65 during the year, you can use the ‘bring forward’ provisions to use your cap for the following two years thereby allowing a contribution of up to $300,000 in a single year. However, you cannot make a non-concessional contribution if your total super balance at the last 30 June was at least $1.6 million.

Exceeding your cap

If your total contributions exceed the contributions caps those excess contributions could attract additional tax. You can have excess contributions refunded to you, but if you do not take up that option they will be assessed against your non-concessional cap also and if you have breached that cap extra tax maybe payable. Excess concessional contributions are effectively taxed at the member’s marginal tax rate, plus an interest charge.

The ATO is equally firm on the subject of single contributions. Here’s what they say: “Single contributions that exceed a member's fund-capped contribution limit cannot be accepted by your SMSF. For a member under 65 years old, the limit is three times the non-concessional cap.”

Source: BT