A Self-Employed Superannuation Guide

When you're at the helm of your own business, it's easy to get caught up in the whirlwind of the present – chasing sales, generating leads, and growing your business. Often, self-employed people prefer reinvesting back into their businesses, hesitant to stash money away in superannuation. Yet, there's a compelling case for setting aside a slice of your earnings.

The facts don't lie

At present, self-employed Australians are not required to contribute to superannuation. According to the Australian Tax Office's (ATO) data, while self-employed people make up about 10% of the workforce, their super contributions account for just 5% of the retirement pie in 2014-15[1]. Dive deeper into the numbers, and fewer than 1 in 10 self-employed Australians opted to make tax-deductible super contributions that same year.

What is 'self-employed'?

The ATO has clear guidelines on what a self-employed person is:

- If you're self-employed as a sole-trader or in a partnership, you don't have to pay superannuation to yourself.
- If you're a contractor, it depends on your agreement or working arrangements with the company that you're doing work for. You may pay your own or you may be eligible for super guarantee contributions from the company.
- You may own the business, but if it's a company and you're considered an employee, then you should be paying yourself the superannuation guarantee, which is currently 11%.

For more information see the ATO website.

Why contribute to superannuation?

While it's tempting to pour every hard-earned dollar back into your business, the reality is that not all businesses come with a pot of gold at the end. Some self-employed people and businesses rely solely on their own labour, with no substantial business assets to lean on. That's where superannuation can come in, providing a great way to plan for your retirement.

A nest egg for retirement

By contributing to super, you are building a nest egg that will provide you with financial security and income in retirement. Putting a small amount of money into superannuation regularly can provide financial stability over time, allowing you to focus on growing your business knowing that you have another income stream building in the background.

Tax benefits

Here’s a big one: self-employed people may be entitled to a full tax deduction for contributions made to super.

If you’re self-employed, you can make personal contributions up to the annual cap, which is $27,500 per year for the 2023-24 financial year. These contributions are taxed concessionally at 15 per cent, rather than marginal tax rates. So not only are the contributions taxed at a lower rate, self-employed people can also claim a tax deduction on those contributions.

To claim a deduction for personal contributions it’s important to note that:

- Contributions need to be made before 30 June to claim them as a tax deduction for that financial year.
- You need to notify your fund before claiming a tax deduction, using a specific form. Strict time limits and additional criteria may apply.
- The ATO website has more information about claiming a tax deduction for personal contributions as a self-employed person - search ‘Personal super contributions’ on the ATO site.

Compounding

Superannuation remains one of the most tax-effective ways to grow wealth. Over time, your contributions can benefit from compounding growth, as your investments earn returns on both your initial contributions and any earnings generated. Starting early and contributing consistently, even with small amounts, can significantly boost your retirement savings.

Diversification

Many self-employed people see their business as their retirement strategy. But by putting money away into the tax-effective superannuation

Gisborne Ph: (03) 5428 0123 Sunbury Ph: (03) 9744 2400
Email: info@nixonfs.com.au Web: www.nixonfinancialservices.com.au
Bob Nixon (AR 264149), Joel Plowman (AR 1256299) and Michelle Abela (AR 1267997)
Nixon Financial Services Pty Ltd is a Corporate Authorised Representative of Sentry Advice Pty Ltd AFSL: 227 748

environment, with investment strategies that can be tweaked over time, you can diversify your investment, reduce risk, AND plan for retirement.

How do I contribute to super if I'm self-employed?

Just because you're self-employed doesn't mean super has to be complicated!

- First thing is to set up a super account. You can:
  - start a new fund with the majority of superannuation providers;
  - contribute to an existing fund you may have had when you were an employee; or
  - go down the self-managed super fund route.
- The next step is to contribute to your super fund. If you receive:
  - A wage — set up a regular transfer into super from your before-tax income.
  - Income from business revenue — transfer a lump sum when you have enough cash flow.

With various tax benefits, flexibility of contribution size and frequency, and having another source of income for your retirement, if you're self-employed why wouldn't you be contributing to super?! If you'd like to get started, talk to your adviser today.

Sources:

https://treasury.gov.au/ *'ASFA Pre-Budget Submission for the 2022-23 Budget', Association of Superannuation Funds of Australia Limited (ASFA), February 2022.*

https://www.superannuation.asn.au/ *'Superannuation balances of the self-employed', March 2018, Version 01, The Association of Superannuation Funds of Australia Limited (ASFA).*

https://www.ato.gov.au *'Work out if you have to pay super', Australian Taxation Office, accessed 13 September 2023.*

https://www.ato.gov.au/ *'Personal super contributions', Australian Taxation Office, accessed 13 September 2023.*

nixon financial services pty ltd
corporate authorised representative

Gisborne Ph: (03) 5428 0123 Sunbury Ph: (03) 9744 2400
Email: info@nixonfs.com.au Web: www.nixonfinancialservices.com.au
Bob Nixon (AR 264149), Joel Plowman (AR 1256299) and Michelle Abela (AR 1267997)
Nixon Financial Services Pty Ltd is a Corporate Authorised Representative of Sentry Advice Pty Ltd AFSL: 227 748