

The self employed and saving for retirement

Ross Clare
Director, ASFA Research and Resource Centre
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ASFA Secretariat

Piccadilly Tower
Level 19
133 Castlereagh St
Sydney NSW 2000

PO Box 1485
Sydney NSW 1005
Telephone: +61 2 9264 9300
Fax: +61 2 9264 8824

Outside Sydney
1800 812 798

Website: www.superannuation.asn.au

The Association of Superannuation Funds of Australia Limited ABN 29 002 786 290 ACN 002 786 290

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Executive Summary

- Australia is a world leader in regard to the implementation of compulsory occupational linked retirement savings for employees. However, the self employed are largely left to their own devices, and many self employed have low savings in the run up to retirement.
- The self employed make up over 10% of the paid labour force, with self employment relatively common in primary production, construction, property and business services, retail trade, and transport services.
- 26% of the self employed have no super. A further 53% of the self employed have superannuation balances of less than \$40,000.
- The data indicate that while average superannuation balances have increased significantly in recent years and while some self employed are on track for a comfortable standard of living in retirement, the majority will fall well short of achieving this.
- For the self employed who recently retired, around half receive some Age Pension with around 30% on the full Age Pension. The average income of recent retirees who were self employed is only \$24,500 a year.
- Compulsory super has an impact, albeit limited, on the currently self employed because of the wide SG definition of employee, and because some self employed have previously been employees.
- Tax incentives have led to a minority of the self employed contributing to superannuation, but contributions have been concentrated in certain industries and occupations. In a given year perhaps only a quarter of the self employed make superannuation contributions. As a result, superannuation savings are concentrated in a very small proportion of the self employed. Around 64% of superannuation assets of the self employed are held by 8% of the self employed, around 67,000 individuals.
- While currently around 36% of wage and salary earners achieve a superannuation balance of more than \$100,000 in the run-up to retirement, only 18% of the self employed do so.
- Those with degrees make up a significant proportion of those with high superannuation balances. The great bulk of the self employed with no post school qualification have no or low superannuation.
- Some self employed have large retirement savings in addition to super, but others have little super and little or no other savings. The value of own business differs markedly between various occupations, industries and individuals. For some self employed individuals the value of the business might be little more than the market value of a second-hand utility or truck and some tools of trade. Many such individuals are also likely to currently have low superannuation balances.
- Those with little superannuation savings should consider benefits of contributing to super, especially given the recent changes to tax deductibility of contributions and the extension of the co-contribution to the self employed.
- There is evidence that those who are advised about superannuation and making contributions also put in place better succession planning in regard to their business.
- There are significant marketing opportunities for superannuation funds amongst the self employed.
- There is a public policy case for extending compulsory super to the self employed, particularly those in jobs where there is no significant saleable value in their own business.

1. Introduction

Until recently not much was known about the distribution of superannuation and other forms of retirement savings across the self employed.

For the first time, however, newly available unit records from the Australian Bureau of Statistics 2003–04 and 2005–06 Surveys of Income and Housing allow a comprehensive account to be compiled of the level and diversity of superannuation balances across both the self employed and wage and salary earners. Much of this information is published for the first time in this research paper.

The data confirms the diversity of circumstances of individual Australians and their distinctive patterns in saving for retirement.

These merit further attention both in regard to marketing opportunities for superannuation funds, and policy development by government.

They also highlight the scope for many self employed individuals to better prepare for their retirement.

The data indicates that while some of the self employed are on track for a comfortable standard of living in retirement, the majority will fall well short.

2. Who are the self employed?

The self employed make up a substantial proportion (over 10%) of the paid labour force in Australia. In 2006 there were around 830,000 individuals aged 25 to 64 whose principal source of income was from their own unincorporated business.

The number of self employed is growing strongly with this figure up 6.5% on the 780,000 self employed in 2004.

As indicated by Table 1, **self employment is relatively common in primary production, construction, property and business services, retail trade, and transport services**. On the other hand, there are very few self employed in government administration and defence, or mining.

TABLE 1: THE PAID LABOUR FORCE AND THE SELF EMPLOYED BY INDUSTRY

Industry	Percentage of total labour force	Percentage of the self employed
Agriculture, Forestry & Fishing	2	9.4
Mining	1	0.3
Manufacturing	9	6.4
Electricity, Gas & Water Supply	1	0.3
Construction	6	24.8
Wholesale Trade	3	2.6
Retail Trade	8	11.9
Accommodation, Cafes & Restaurants	2	1.3
Transport and Storage	4	4.9
Communication Services	2	1.9
Finance and Insurance	3	0.7
Property and Business Services	9	15.0
Government administration and defence	4	0.4
Education	6	2.4
Health and Community Services	8	5.8
Cultural and Recreational Services	2	3.1
Personal and Other Services	3	6.1

Source: ABS 2003-04 Survey of Income and Housing Unit Record File

The self employed have a relatively high proportion of males (68%), compared to wage and salary earners (55%).

The self employed also have a somewhat older age structure than wage and salary earners, with 17% of the self employed aged over 55.

In comparison, only 11% of employees are aged 55 and over. Professionals tend to keep working at older ages, as do managers and owners of businesses.

3. The self employed and superannuation

Compulsory superannuation contributions in the form of the Superannuation Guarantee (SG) are largely restricted to employees. However, some of the self employed are covered by the SG due to the reasonably expansive definition of wage and salary earners in the legislation (see Appendix A).

This reflects the reality of the arrangements applying to some self employed. If a person who is formally self employed has only one customer and they do all their work for that customer on a contract basis, it is not unreasonable to have entitlements similar to those applying to employees. Around 300,000 of the 1.2 million owner/managers of unincorporated enterprises, as at November 2006, worked on a contract basis.

As well, many individuals who are currently self employed were, at some stage in the past, employees. As a result, they have accumulated compulsory superannuation benefits.

The significant tax concessions that apply to superannuation also mean that many (but certainly not all) of the self employed have made voluntary superannuation contributions. Appendix A also sets out the various tax concessions and incentives that apply to contributions by the self employed.

However, on average, **the self employed are less likely to have superannuation than employees** (Table 2). **Around 26% of the self employed have nil superannuation and in the case of self employed females, over 31% have no superannuation.**

In contrast, compulsion is seen to work. Only around 4% of wage and salary earners have no superannuation (presumably this reflects part timers below the threshold for the Superannuation Guarantee or the survey respondent not knowing about their superannuation).

TABLE 2: DISTRIBUTION OF SUPERANNUATION BY BASIS OF EMPLOYMENT AND BY GENDER, 2006

Level of super		Nil	Low	Middle	High	Overall
		% of Pop'n	% of Pop'n	% of Pop'n	% of Pop'n	% of Pop'n
Male	Self-employed	22.8	52.4	16.2	78.5	100
	Wage and salary earners	4.1	52.1	24.6	19.3	100
Female	Self-employed	30.9	55.3	6.8	7.0	100
	Wage and salary earners	4.2	68.1	18.4	9.3	100
Persons	Self-employed	25.5	53.4	13.1	8.0	100
	Wage and salary earners	4.1	59.3	21.8	14.8	100

Source: Unit record file for the ABS 2005-06 Survey of Income and Housing

Notes: Low balance is defined as less than \$40,000, High balance is over \$100,000 and (logically enough) Middle balance lies between High and Low. Columns are additive across the table.

Over the two years to 2005–06, the incidence of nil superannuation fell, particularly for female self employed. More specifically, in 2003–04, 36.2% of female self employed had nil superannuation, while for males the figure was 25.9%.

The incidence of high superannuation balances (over \$100,000) is relatively low amongst the self employed. **Wage and salary earner males are around twice as likely to have high balances compared to the self employed.** For females there is not much difference following rapid growth over the last two years.

4. Superannuation balances by age group and for women

Lower average balances for the self employed are observed across the entire distribution of age groups relative to wage and salary earners (Table 3). The female self employed also consistently have average superannuation balances which are significantly lower than for both female wage and salary earners and males who are self employed.

While there would have been some growth in average account balances since 2006, the self employed on average are still likely to have relatively low superannuation balances at the time of retirement.

Average superannuation account balances for self employed males aged 60 to 64 of around \$124,000 and for females of around \$45,000 provide only very modest amounts of retirement income. As well, around 70% of the self employed had balances below these average amounts.

TABLE 3: AVERAGE SUPERANNUATION BALANCE BY AGE AND GENDER, 2006

		Wage & Salary Earners	Own Unincorporated Business
Male	25-34	22,650	11,020
	35-44	56,840	23,760
	45-54	113,940	60,140
	55-59	161,270	73,140
	60-64	173,260	123,730
	All	77,100	49,130
	Female	25-34	18,110
35-44		35,880	23,750
45-54		62,150	45,890
55-59		69,320	40,100
60-64		94,540	44,730
All		42,960	33,340
Persons		25-34	20,600
	35-44	47,610	23,750
	45-54	89,440	54,860
	55-59	119,990	63,960
	60-64	147,030	105,080
	All	61,780	44,000

Source: Unit record file for the ABS 2005-06 Survey of Income and Housing

However, the balances for the self employed are up significantly from the same time two years earlier.

The average balance for the male self employed increased by 27%, while for females the average balance was up 91% (albeit from a low base).

The biggest increases in average balances were for males aged 60 to 64 and for females aged 45 to 54. However, there were increases across the age range. Strong investment returns would have contributed to the outcomes. Nevertheless, the large increases for certain age groups show that there were significant behavioural changes as well in regard to making contributions over the period.

5. How many self employed have a lot of superannuation and how many have no or little super?

The bulk of superannuation assets of the self employed is held by a relatively small number of individuals. The degree of concentration in the holding of superannuation assets is much higher than for wage and salary earners (Tables 4 and 5).

Around 64% of superannuation assets of the self employed are held by 8% of the self employed, around 67,000 individuals.

At the other end of the distribution of superannuation assets, **around 26% of the self employed (around 210,000 persons) have no superannuation and a further 53% had less than \$40,000.**

While 36% of wage and salary earners achieve a superannuation balance of more than \$100,000 in the run-up to retirement, only around 18% of the self employed do so.

TABLE 4: THE DISTRIBUTION OF SUPERANNUATION AMONGST WAGE AND SALARY EARNERS

Superannuation Group								
Age Group	Nil		Low		Middle		High	
	% of W&S Pop	% of W&S Super	% of W&S Pop	% of W&S Super	% of W&S Pop	% of W&S Super	% of W&S Pop	% of W&S Super
25-34	3.8	0.0	83.0	56.3	11.6	30.9	1.6	12.9
35-44	4.3	0.0	58.8	20.6	25.5	32.9	11.4	46.4
45-54	3.5	0.0	44.9	8.4	27.6	20.1	23.9	71.5
55-59	5.4	0.0	37.5	5.2	25.6	14.0	31.6	80.8
60-64	5.5	0.0	33.6	4.1	24.5	11.4	36.4	84.5
All	4.1	0.0	59.3	14.9	21.8	22.1	14.8	63.0

Source: Unit record file for the ABS 2005-06 Survey of Income and Housing.

Note: Percentage shares are additive across the columns for each group.

TABLE 5: THE DISTRIBUTION OF SUPERANNUATION AMONGST THE SELF EMPLOYED

Superannuation Group								
Age Group	Nil		Low		Middle		High	
	% of SE Pop	% of SE Super	% of SE Pop	% of SE Super	% of SE Pop	% of SE Super	% of SE Pop	% of SE Super
25-34	16.2	0.0	80.1	84.4	3.7	15.6		
35-44	25.4	0.0	58.1	35.0	11.8	29.2	4.7	35.9
45-54	25.3	0.0	48.0	13.8	17.2	20.1	9.5	66.0
55-59	30.1	0.0	37.6	8.6	17.0	17.4	15.3	74.0
60-64	36.4	0.0	29.9	4.7	15.6	10.2	18.1	85.0
All	25.5	0.0	53.4	17.5	13.1	18.7	8.0	63.8

Source: Unit record file for the ABS 2005-06 Survey of Income and Housing

6. The other retirement savings of the self employed

The news on retirement savings is not all bad for the self employed, or at least it is quite good for some of the self employed. The self employed have (on average at least) higher non-home net worth (higher wealth and savings) than wage and salary earners. This is particularly the case for those aged over 60. **The older self employed on average accumulate a range of assets in significant amounts in addition to superannuation. The net worth of own business can be a significant contributor to net wealth** (Table 6).

For each age group in the table the self employed on average have greater total assets (apart from own home) than wage and salary earners.

TABLE 6: ASSETS OF THE SELF EMPLOYED AND OF WAGE AND SALARY EARNERS, 2006

Age Group	Employment Type	Cash	Shares	Investment Property	Super	Business (net)	Non-Home Net Worth
25-34	W&S	13,010	3,070	18,940	20,600	1,110	56,710
	SE	7,270	9,790	30,260	11,800	64,530	123,660
35-44	W&S	12,240	9,700	29,680	47,610	2,990	102,230
	SE	9,480	9,890	31,660	23,750	86,040	160,830
45-54	W&S	16,050	9,870	36,700	89,440	2,410	154,470
	SE	21,840	12,560	61,250	54,860	76,410	226,910
55-59	W&S	37,600	15,310	39,620	119,990	3,960	216,490
	SE	21,280	9,950	73,740	63,960	68,840	237,760
60-64	W&S	20,780	16,200	53,850	147,030	1,920	239,780
	SE	17,900	14,520	37,760	105,080	147,200	322,460

Source: Unit record file for the ABS 2005-06 Survey of Income and Housing.

However, averages can be deceptive. **The better off self employed tend to have more superannuation, more business net worth, more investment properties, and higher holdings of shares.** The less well off self employed tend to have little of each of these. Investment properties are also relatively "lumpy", with equity in such investments generally a substantial amount for the minority with an investment property.

Anecdotal evidence from funds suggests that those self employed who have more in superannuation are also better at building up equity in their business and otherwise accumulating retirement savings. Better planning pays off in a variety of ways. Taking advice and putting in a savings plan has a very clear impact on total assets accumulated.

There also would be substantial variation in the value of their own business. **For some self employed individuals the value of the business might be little more than the market value of a second-hand utility or truck and some tools of trade. For others, it might be the value of an ongoing business worth a million dollars or more.** Many such individuals are also likely to currently have low superannuation balances.

There also are both sound policy and personal reasons for individuals saving for retirement through having both superannuation and a business which has a resale value. As recent market developments have clearly indicated, the value of a business may reduce markedly over even a very brief period. As well, when it comes to an actual sale, a business may be worth less in the market than the owner considered. Relying on the value of a business as both a source of income during working years and as the capital basis for retirement income can be putting "too many eggs into the one basket". Having savings both in the form of equity in a business and superannuation generally will be a sounder approach.

In any event the statistics indicate that many of the self employed currently do not achieve significant savings either in the form of equity in their business, or retirement savings in superannuation or otherwise. The net result is that a large proportion of recent retirees from the ranks of the self employed qualify for a full or part Age Pension. Previously unpublished data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey provides information on individuals of Age Pension Eligibility age in 2001 who were self employed five years earlier. The data indicate that 51% of the this group were receiving some Age Pension, with 30% receiving the full Age Pension.

The average gross income of this group of retirees who were previously self employed was a modest \$24,400 a year.

7. The distribution of superannuation balances

Table 7 illustrates the divide between those with super and those without by level of qualifications, trade and industry. Industry and occupational groups of course overlap. Professionals tend to have a high rate of degree qualifications for instance.

TABLE 7: THE NUMBER OF THE SELF EMPLOYED BY CHARACTERISTIC AND BY LEVEL OF SUPERANNUATION BALANCE

	Nil super	Low super	Middle super	High super
Highest Qualification				
Degree+	25,210	69,460	21,990	27,740
Diploma	13,520	31,720	10,410	5,360
Certificate	57,620	191,270	42,320	16,000
No post school	114,030	143,910	30,970	17,510
Other	580	5,830	3,220	
All	210,960	442,180	108,920	66,610
Industry (of those employed F/T or P/T)				
Not applicable and inadequately described	7,140	8,690	1,580	1,320
Agriculture, Forestry and Fishing	31,030	22,940	12,580	5,350
Manufacturing	5,580	27,570	8,180	3,200
Electricity, Gas and Water Supply	1,850	350		
Construction	51,660	138,950	24,820	8,000
Wholesale Trade	6,450	10,000	2,930	2,560
Retail Trade	19,340	46,890	11,110	5,770
Accommodation, Cafes and Restaurants	9,570	6,880	1,960	1,100
Transport and Storage	16,160	24,300	5,370	980
Communication Services	2,930	9,010	1,360	1,430
Finance and Insurance	480	2,680	2,450	4,930
Property and Business Services	27,290	69,500	19,590	18,090
Government Administration and Defence		230		1,150
Education	3,190	11,380	690	2,910
Health and Community Services	8,010	21,850	7,190	8,070
Cultural and Recreational Services	8,360	17,740	5,000	
Personal and Other Services	11,930	23,210	4,110	1,750
All	210,960	442,180	108,910	66,610
Occupation (of those employed F/T or P/T)				
Not applicable	7,140	8,690	1,580	1,320
Managers and Administrators	32,690	41,160	16,400	9,950
Professionals	25,890	66,250	22,470	24,390
Associate Professionals	36,840	60,090	12,840	13,560
Tradespersons and Related Workers	39,110	126,250	26,700	6,720
Advanced Clerical and Service Workers	8,270	26,520	3,740	5,000
Intermediate Clerical, Sales and Service Workers	14,790	20,980	4,360	2,710
Intermediate Production and Transport Workers	19,550	40,520	9,810	1,410
Elementary Clerical, Sales and Service Workers	5,420	17,170	3,830	
Labourers and Related Workers	21,270	33,350	7,190	1,540
All	210,960	442,180	108,920	66,610

Source: Unit record file for the ABS 2005-06 Survey of Income and Housing.

Those with degrees make up a significant proportion of those with high superannuation balances. The great bulk of the self employed with no post school qualification have no or low superannuation.

Self employed professionals and managers and administrators make up around half of those with relatively high superannuation, but a significant minority of tradespersons also have high superannuation balances.

In terms of the split by industry, there is a significant minority with high balances in each of the agricultural, construction, retail trade, property and business services, and health and community services industries. This most likely **means that there are a significant number of farmers, builders, shopkeepers, real estate agents and financial planners, and doctors and dentists with a reasonable amount of superannuation.**

8. Taxation data on contributions by the self employed

Australian Taxation Office data confirms that only a minority (a quarter or less) of the self employed make tax deductible superannuation contributions in a given year (Table 8).

Total contributions are substantial at nearly \$4 billion a year, with a large increase in amounts claimed in 2005-06. Increased business profitability and increased awareness of the tax and other advantages of contributing to superannuation are likely to have played roles in the large increase.

The self employed also make further personal contributions (which do not receive the benefit of a tax deduction), particularly in the run-up to retirement when other assets, including own business, are sold. Prior to 1 July 2007 only 75% of contributions by the self employed over \$5,000 were tax deductible. Now, 100% of contributions can be tax deductible, up to the limit applying to the individual.

TABLE 8: AGGREGATE DEDUCTIONS FOR SUPERANNUATION CONTRIBUTIONS BY THE SELF EMPLOYED

Year	No Claiming	Aggregate Amount Claimed
2002-03	168,508	\$1,333m
2003-04	172,897	\$1,605m
2004-05	179,725	\$2,023m
2005-06	203,235	\$3,879m

Source: ATO Taxation Statistics, 2005-06

The tax data also confirms that a substantial proportion of tax deductible contributions are made within just a few industry groups. **Self employed farmers, real estate agents, financial planners, doctors and dentists again are the substantial contributors to superannuation** (Table 9). There were a reasonable number of contributors within the construction industry, but the average contribution at around \$4,300 was relatively low.

TABLE 9: SELF-EMPLOYED TAX DEDUCTIBLE SUPERANNUATION CONTRIBUTIONS BY INDUSTRY

Industry	No. Claiming	Aggregate Amount Claimed	Average Deduction
Agriculture, Forestry & Fishing	24,395	\$293m	\$12,000
Mining	105	\$1.5m	\$14,400
Manufacturing	3,485	\$20m	\$5,800
Electricity, Gas & Water Supply	30	\$0.1m	\$4,500
Construction	15,350	\$66m	\$4,300
Wholesale Trade	945	\$8m	\$9,000
Retail Trade	5,445	\$47m	\$8,600
Accommodation, Cafes & Restaurants	535	\$4m	\$8,200
Transport and Storage	3,550	\$21m	\$5,800
Communication Services	1,225	\$6m	\$4,500
Finance and Insurance	1,625	\$27m	\$16,600
Property and Business Services	14,725	\$195m	\$13,300
Education	940	\$8m	\$9,200
Health and Community Services	8,760	\$152m	\$17,300
Cultural and Recreational Services	2,030	\$18m	\$8,900
Personal and Other Services	4,945	\$29m	\$5,900

Source: ATO Taxation Statistics, 2004-05

The larger tax deductible contributions tend to be made by individuals in industries where it is more likely that a business will have a significant resale value and/or the individual has a higher than average income.

9. Income levels of the self employed

As shown by Table 10, the **self employed on average have lower incomes than wage and salary earners**. Again averages can be deceptive, and there also are some tax planning influences at work here. It is likely that average income figures for the self employed are brought down by the very low incomes of a proportion of the self employed.

TABLE 10: AVERAGE INCOME BY AGE, GENDER AND EMPLOYMENT TYPE

		Wage & Salary	Own Unincorporated Business
Male	25-34	54,410	45,950
	35-44	65,760	57,090
	45-54	66,070	49,430
	55-59	61,230	55,930
	60-64	59,920	38,710
	All	61,680	50,920
Female	25-34	40,710	41,110
	35-44	42,570	37,720
	45-54	41,570	38,850
	55-59	38,500	31,140
	60-64	37,360	30,480
	All	41,170	37,330
Persons	25-34	48,220	44,580
	35-44	55,550	50,450
	45-54	54,480	45,510
	55-59	51,030	48,720
	60-64	52,400	36,760
	All	52,480	46,500

Source: Unit record file for the ABS 2005-06 Survey of Income and Housing

Tax planning also plays a role in the reported low incomes of the self employed. As indicated by Table 11, there are significant numbers of very low income self employed individuals who make tax deductible contributions. A goal for many self employed persons (or of their accountants) is to reduce taxable income to the lowest possible amount.

However, there is one positive implication of these lower average incomes – a substantial proportion of the self employed will qualify for the co-contribution if they make a personal contribution to superannuation.

TABLE 11: SELF EMPLOYED SUPER CONTRIBUTIONS BY INCOME BRACKETS

Income Bracket	No. Claiming	Aggregate Amount Claimed	Average Deduction
Less than \$10,000	18,230	\$232m	\$12,700
\$10,001 - \$20,000	24,700	\$163m	\$6,600
\$20,001 - \$30,000	33,815	\$283m	\$8,400
\$30,001 - \$40,000	25,760	\$190m	\$7,400
\$40,001 - \$50,000	19,645	\$169m	\$8,600
\$60,001 - \$80,000	16,035	\$178m	\$11,100
\$80,001 - \$100,000	7,060	\$109m	\$15,500
\$100,001 - \$200,000	11,320	\$247m	\$21,800
\$200,001 - \$500,000	5,585	\$170m	\$30,500
\$500,001 - \$1,000,000	1,700	\$66m	\$39,100
\$1,000,000+	325	\$17m	\$54,000

Source: ATO Taxation Statistics, 2004-05

10. Conclusions

The Australian compulsory superannuation system has largely passed by the self employed. The great bulk of the self employed have little or no superannuation, and only a small minority make contributions on a regular basis.

The evidence available indicates that many self employed individuals are not financially prepared for retirement given that those with little superannuation often have little other savings as well. A large proportion of the self employed currently go on to receive a full or part Age Pension from the government.

Given the tax and other advantages accruing to saving for retirement through superannuation, more of the self employed should consider making such contributions.

Public offer superannuation funds are in a position to market superannuation to the self employed. There would appear to be considerable scope for expanding such business across a range of the self employed. Industries where there is considerable scope to increase coverage amongst the self employed include construction, retail trade, property and business services, primary production, transport, health and personal services.

THE TAX TREATMENT OF CONTRIBUTIONS

Contributions made by the self-employed (who are defined to have no more than 10% of their assessable income from wages or salary) from 1 July 2007 are eligible to be treated in an equivalent way to contributions made by or on behalf of employees. A self-employed person can choose to make a contribution for which they receive the benefit of a personal tax deduction.

These contributions are taxed at the rate of 15% when they are received by the superannuation fund. A tax deduction is available for contributions made until the contributor reaches age 75. A person who wishes to claim a tax deduction for a superannuation contribution has to notify their superannuation fund by the time they lodge their income tax return or by the end of the following financial year, whichever is earlier.

A self-employed person can also choose to make a non-concessional contribution. This is one that they do not receive a personal tax deduction for but equally is not taxed when it is received by a superannuation fund.

The self-employed also can qualify to roll into their superannuation account proceeds from the disposal of assets that qualify for one of the small business capital gains tax exemptions. These are the small business capital gains tax retirement exemption (\$500,000 cap) or the exemption applying to small business assets held for 15 years or more (\$1,000,000). Both types of roll-ins are subject to a single lifetime \$1,000,000 indexed cap.

LIMITS ON CONTRIBUTIONS

There are limits on the amounts of both concessional and non-concessional contributions that can be made. From 1 July 2007 personal superannuation contributions from an individual's post-tax income (known as undeducted contributions or non-concessional contributions) are limited to \$150,000 per annum. People under age 65 are able to bring forward two years of contributions and make a larger contribution of \$450,000. Superannuation funds are unable to accept contributions exceeding the relevant cap.

If an individual makes contributions in excess of the cap because they contribute to more than one fund then excess contributions will be taxed at the top marginal rate (plus Medicare levy). This is enforced through funds providing to the Australian Taxation Office (ATO) details of all contributions received. The ATO has limited discretion to reduce the tax payable in regard to an inadvertent breach of the cap.

A limit of \$50,000 a year per person generally applies to contributions which are tax deductible to the individual (concessional contributions). However, a transitional period applies in which people aged 50 and over are able to make contributions of up to \$100,000 per year without breaching the cap. This period applies to the financial years of 2007–08 to 2011–12. A person turning 50 during that period is able to take advantage of the transitional arrangements from the time they turn 50.

A self-employed person is required to quote her or his tax file number in order to make contributions.

Between age 65 and 74 an individual can only contribute if they have been gainfully employed for at least 40 hours in a period of not more than 30 consecutive days during the same financial year in which the contributions are made. From age 75 onwards the self-employed (and all other individuals) are unable to make contributions on their own behalf.

THE CO-CONTRIBUTION AND THE SELF EMPLOYED

From 1 July 2007 the self-employed join employees in qualifying for the government co-contribution if they make a personal (undeducted, non-concessional) contribution into a superannuation fund. An income test applies, with total income required to be less than \$58,980 in 2007–08. Ten per cent or more of total income must be from eligible employment, running a business, or combination of both. The person making the contribution must be less than 71 years old at the end of the year of income.

The co-contribution is at the rate of \$1.50 for each dollar of personal contributions, subject to a maximum co-contribution of \$1,500 for \$1,000 of contributions at the income level of \$28,980. The maximum co-contribution available decreases with higher total income, phasing out altogether at an income level of \$58,980.

The following case study sets out an ATO provided example for calculating the co-contribution.

CASE STUDY: CALCULATING THE SUPER CO-CONTRIBUTION PAYMENT FOR THE SELF-EMPLOYED

In the 2007–08 income year Oscar has gross business receipts of \$43,000, business deductions of \$41,500, and other personal investment income of \$15,000. Is Oscar eligible for co-contributions?

For the purposes of the 10% test, total income is not reduced by allowable business deductions.

Oscar would be eligible to receive a co-contribution based on the eligibility criteria under the 10% test because the percentage of his gross total income from employment, carrying on a business or a combination of both is 74%

The 74% figure is calculated as:

Gross business receipts

(Gross business receipts + Other income)

= $\$43,000 / (\$43,000 + \$15,000) = 74\%$

As this percentage is greater than 10% of his total income, Oscar meets the 10% test.

Assuming other criteria have been met, the next step is to calculate the total income for co-contribution threshold purposes. For threshold comparison, total income is reduced by allowable business deductions.

Total income for Oscar for comparison with the lower and higher income thresholds would be calculated as:

(Gross business receipts + Other income) less business deductions

= $(\$43,000 + \$15,000) - \$41,500 = \$16,500$

Oscar has a total income of \$16,500 for co-contribution income threshold purposes.

Therefore, Oscar would qualify for the full \$1.50 on each \$1.00 he contributes to a complying fund (up to a maximum of \$1,000) as his total income is under the \$28,980 lower income threshold.

THE SELF EMPLOYED AND THE SUPERANNUATION GUARANTEE

Industrial award based superannuation in the late 1980s and the introduction of compulsory superannuation in 1992 in the form of the Superannuation Guarantee has led to the great bulk of Australians in the paid labour force having some or a significant level of superannuation savings.

However, the minority of Australians who are self employed do not generally fall within the coverage of the Superannuation Guarantee (SG) compulsory superannuation system. The reason for this is that the SG system only applies to individuals who receive more than \$450 in wages or salary. This includes individuals who are employed by a company owned or controlled by the individual.

The Superannuation Guarantee also covers a person who works under a contract that is wholly or principally for their labour. This means that a contractor may be considered an employee under the superannuation guarantee. This is the case even if the individual concerned quotes an Australian Business Number (ABN). The Australian Taxation Office website (www.ato.gov.au) has further details.

Many persons who are currently self employed were an employee at some stage, or might be an employee at some stage in the future. However, intermittent involvement in the labour force as an employee is not a recipe for significant superannuation savings courtesy of the Superannuation Guarantee.