

Superannuation Investment Strategies for Business Owners

Introduction

While owning a business is quite rewarding, small business owners often tend to put every dollar back into their business, believing that eventually selling the business will provide a comfortable nest egg for a prosperous retirement.

"We do know that small-business owners have significantly less super than people who aren't small-business owners," said [Small Business Ombudsman Kate Carnell](#). Carnell further said this is especially problematic for women who own 45 percent of small businesses in Australia, as coupled with low wages and less super, creates a 'double-whammy'.

This strategy of depending on the sale of the business to fund retirement is grievously flawed as there is no assurance that business owners can, in the future, command the price they want to secure a comfortable retirement.

What instead, can empower small business owners to achieve their long-term financial goals, is a sound superannuation strategy. If you are a small business owner, then this article is for you.

Understanding Superannuation for Business Owners

Depending on the structure of the business, it may not be compulsory for you to contribute to a personal super fund. Nevertheless, paying yourself super from business profits is an effective way to build long-term wealth and set yourself up for retirement in a tax-protected environment.

The amount you need for a secure retirement depends on your retirement and lifestyle goals. We recommend you consult a financial advisor to plan your super contribution over your working life.

If you do employ people in your business, you must pay them super as per the superannuation guarantee.

Superannuation Guarantee

The Superannuation Guarantee or SG is the minimum rate you must contribute to each eligible employee's super fund above their ordinary time earnings.

As of 1 July 2023, the minimum SG rate for each [eligible employee](#) is 11%, scheduled to increase to 12% incrementally on 1 July 2025.

If you draw a salary from your business under a traditional PAYG setup, you are legally obligated to pay yourself the minimum 11% quarterly.

You do not have to pay SG for your employees' earnings exceeding a certain limit called the [maximum contribution base](#), which stands at \$62,270 per quarter for the financial year 2023–24.

Superannuation Contribution Strategies

Super contributions are of two main types:

1. Concessional Contributions

These are contributions made to a super account before taxation. In addition to the superannuation guarantee, which is also a concessional contribution, these include:

- **Salary Sacrificed Contributions**

[Salary sacrificing](#) is when an employee elects to contribute a portion of their pre-tax salary into their super fund. If you are a business owner drawing a salary, you can opt for a salary sacrifice above your regular wage. The benefits of salary sacrificing are reduced taxable income and increased superannuation contributions, enabling you to save more for retirement.

If any of your employees want to enter a salary sacrificing arrangement, ensure they request this in writing and keep it on their file as a record. We advise you to consult a financial advisor before entering a salary sacrifice arrangement and stay within the contribution limits stipulated by the Australian Taxation Office (ATO).

- **Personal Deductible Contributions**

You can make [personal contributions](#) to your super fund in addition to the superannuation guarantee and salary sacrificing to boost your super further. These are considered concessional contributions if:

- they are from your pre-tax income
- you claim a tax deduction on them

You must lodge a notice of intent with your super fund before you claim a deduction.

2. Non-concessional contributions

Non-concessional or non-taxable contributions are contributions to your super fund from after-tax income or personal savings. Personal contribution from your pre-tax income you do not claim a tax deduction on is also considered non-concessional. These will not be further taxed. There is a cap to the maximum amount you can contribute without being taxed, which from 1 July 2021 is \$110,000.

Investment Options and Strategies

Superannuation is a fund that holds all your investments in a tax-favourable environment. And like any investment options, they are designed to suit different risk tolerances and savings goals.

While some super funds let you choose a mix of different [asset classes](#), the default investment option is usually a balanced mix of asset types.

When deciding on an investment option, consider the following factors:

- When do you want to retire
- Your risk profile
- Your savings goal
- How much direct control you want over your investments

Self-managed superannuation fund (SMSF)

SMSF funds have become increasingly popular amongst small business owners in Australia. While the control, flexibility and benefits of SMSFs are attractive, they may not be for everyone.

Managing an SMSF is complex and comes with many risks. Before you decide if an SMSF is right for you, [watch these short videos](#) on the ATO's website. We recommend you seek advice from a financial advisor or an SMSF specialist to tailor your superannuation strategies to your personal and business circumstances.

Conclusion

Don't let retirement catch you off guard. While superannuation has been designed more for the benefit of employees, small business owners can reap the benefits of innovative superannuation investment strategies to lay the foundation for wealth accumulation and a financially secure future. Consult with a financial advisor today to discuss your retirement goals and understand how superannuation can help you achieve your retirement goals.