FACT SHEET | FINANCIAL DECISIONS

# Salary sacrifice

Salary sacrificing is a way of making contributions to your superannuation before income tax is paid. Let's take a look at how salary sacrificing works and the various rules and limits.

### How does it work?

Under a salary sacrifice arrangement, you ask your employer to pay some of your gross salary directly into your super account. This is in addition to the compulsory superannuation guarantee (SC) amount your employer is required to contribute for you.

### Why do it?

Making contributions **before** income tax is paid can be a tax-effective way to boost your super. Why? Because the money you salary sacrifice into your super gets taxed at 15%*, rather than your marginal tax rate, which for most people is at least 32.5% plus Medicare and applicable levies.

* Generally, if your income plus your before-tax super contributions are greater than $300,000, you'll need to pay an additional 15% tax on the contributions over $300,000.

### If there a limit on salary sacrifice contributions?

Yes. There are limits on the amount of money you can put into super and receive tax concessions. Salary sacrifice and employer SC contributions are defined as "concessional contributions". The general limit on concessional contributions is $25,000 a year.

If you exceed this cap, you can apply to your fund to have the excess contributions returned. The excess contributions will then be taxed at your marginal rate with interest payable to reflect that the tax on excess contributions is collected later than normal tax.

### Let's see how it works

Joe earns $65,000 a year. He wants to boost his retirement savings but he's not sure how much he can afford and whether he should make before-tax or after-tax contributions.

Joe talks to a financial planner who reviews his cash flow and calculates that Joe can afford to put an extra $5,000 a year into super. But should he pay this before or after tax?

The planner's calculations also show that salary sacrifice gives Joe the best outcome. This is because salary sacrificing $5,000 into super reduces Joe's taxable salary by this amount, which gives him an extra $1,625 in his pay packet. Although contributions tax of 15% is deducted from Joe's salary sacrifice contribution (giving him an actual super contribution of $4,250), the table shows that salary sacrificing still gives Joe the best outcome.

In addition, the investment earnings from his super will be taxed at a maximum of 15%. Investment earnings outside super, however, will be taxed at Joe's marginal tax rate of 32.5% (plus Medicare and applicable levies).

| | Salary sacrifice | After-tax contribution |
|---|---|---|
| Gross salary | $65,000 | $65,000 |
| Less salary sacrifice contribution | ($5,000) | N/A |
| Taxable income | $60,000 | $65,000 |
| Less income tax * | ($11,047) | ($12,672) |
| Less after-tax contribution | N/A | ($5,000) |
| Net salary | $48,953 | $47,328 |
| Net super contribution | $4,250 | $5,000 |
| End position (salary plus super contributions) | $53,203 | $52,328 |

* Excludes Medicate and applicable levies and low income tax offset

This example is illustrative only and does not guarantee an outcome. It is based on current rates and legislation, which is subject to change.

Salary sacrificing can be a tax-effective way to boost your super

## Tip

If you can afford it, think about salary sacrificing any pay rises, tax cuts or bonuses into your super fund. You might get a bit more in your pay packet or at the very least, you won't notice any difference.

But what you will notice is the difference that compound interest can make to your super balance over time!

Don't forget to keep a close eye on your contributions so you don't accidentally exceed the contributions cap.

### What else do you need to know?

- Salary sacrifice may not be for everyone. For example, salary sacrifice contributions do not count towards a government co-contribution, so for this reason alone, after-tax contributions may give you a better outcome.
- If you are aged 65 or more, a work test applies. This means you can't make salary sacrifice contributions unless you have worked at least 40 hours in any consecutive 30-day period during the same financial year in which the contributions are made.
- You can only make salary sacrifice contributions up to age 75 (if you are eligible to make contributions to super).
- As with most super savings, salary sacrifice contributions must remain in the superannuation system until you meet a condition of release, such as retirement from the workforce.
- Salary sacrifice contributions may reduce your salary for SG purposes. Check with your employer.

### How to get started

- The first step is to check with your human resources or payroll team to ensure that your employer offers salary sacrifice. You should also ask your employer about any limitations on the actual amount of salary you can sacrifice and any fees that may be payable.
- Make sure that your salary sacrifice arrangement can be amended or stopped at any time and if your employer charges a fee for this arrangement.

## We're here to help

Super can be quite complicated and sometimes you just want to know that you're making the right decisions. Because the right decisions about your super can make a real difference to your financial future.

So if you've got any questions, or you just want the comfort of knowing you're on the right track, why not give us a call?

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