

Superannuation

Salary sacrifice



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Salary sacrifice /

Changes to income tax rates and thresholds from 1 July 2009 mean that some taxpayers may have a higher level of disposable income. This provides you with another chance to boost your retirement savings.

Using salary sacrifice to increase your superannuation nest egg is an attractive option for some employees as it can provide significant tax advantages.

What is salary sacrifice?

When you salary sacrifice into super, you enter into an arrangement with your employer to give up part of your before tax salary. In return your employer pays an equal contribution into your super account. This is in addition to the compulsory superannuation guarantee (SG) amount your employer is required to contribute.

What are the benefits?

One of the benefits of salary sacrifice is that the amount you give up is treated as an employer contribution and is not included in your assessable income or taxed at your marginal tax rate. This may lead to tax savings.

Salary sacrifice offers a maximum up-front tax saving of 31.5 per cent (including Medicare levy) in 2009/10, ie the difference between the highest marginal tax rate (46.5 per cent) and the superannuation fund tax rate (15 per cent).

Please note, salary sacrifice contributions do not attract a Government co-contribution.

Case study

Bill, aged 51, is an employee earning \$90,000 in the 2009/10 financial year. He would like to contribute an extra \$40,000 into his super, and is considering whether he should make a personal after-tax contribution or enter into a salary sacrifice contribution arrangement with his employer. A salary sacrifice contribution is made from your gross salary (ie before income tax), while a personal contribution is made from your net salary (ie after income tax).

Salary sacrifice vs personal contributions

	Personal contribution \$	Salary sacrifice \$
Salary	90,000	90,000
Salary sacrifice		
Gross salary sacrifice contribution	0	40,000
Contributions tax (15%) on salary sacrifice	0	less 6,000
Net salary sacrifice contribution	0	34,000
Income		
Gross income	90,000	50,000
Tax on income (including Medicare levy)	less 23,000	less 9,600
Net income	67,000	40,400
Personal superannuation contribution	40,000	0

Benefit comparison

	Personal contribution \$	Salary sacrifice \$
Benefit		
Net income (after tax and super contribution)	27,000	40,400
Net superannuation contribution	40,000	34,000
Total benefit	67,000	74,400

For Bill, the salary sacrifice arrangement will be more advantageous than making a personal after-tax contribution. The net benefit of the salary sacrifice option is \$7,400 per annum (ie \$74,400 – \$67,000).

Note

- This case study does not consider the effects of tax offsets, any other income or lump-sum tax upon withdrawal from super.
- SG contributions are not included in the above calculations as it is assumed that SG is paid on the pre-salary sacrifice salary (ie \$90,000) for each option.

How do I arrange to salary sacrifice?

If you want to salary sacrifice into your super fund, you and your employer need to set up what the Australian Taxation Office regards as an effective salary sacrifice agreement.

Speak to your employer for further details on your company's procedure for salary sacrificing.

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Need more information?

To find out more about the tax advantages of salary sacrifice and whether it would be a good strategy for you, please speak to your financial adviser or visit **axa.com.au**.

Contact your financial adviser

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