About 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 (SG) 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 is taxed at 15%*, rather than your marginal tax rate, which for most people is higher than 15%.

So not only can salary sacrificing increase your super savings, it could also reduce your assessable income and potentially your tax bill. By making salary sacrifice contributions, you can spread the impact on your take-home pay because the contributions are deducted from your pre-tax salary every pay cycle. Other than providing your payroll office with your instructions, there is no additional paperwork for you to complete.

* Generally, if your income plus your before-tax super contributions are greater than $250,000, you'll need to pay an additional 15% tax on the contributions that take your income over $250,000. Additional tax at 34% will also be deducted if you do not provide your TFN.

Are you eligible to salary sacrifice?

All members of First State Super can make salary sacrifice contributions to First State Super, if it is allowed under their employment conditions. Check with your human resources or payroll area to confirm that salary sacrifice arrangements are available to you.

If salary sacrificing isn't available to you, think about making personal contributions and claiming a tax deduction. See our fact sheet *Adding to your super* for more information.

Are there any fees?

First State Super does not charge any additional fees if you make salary sacrifice or after-tax contributions. However, you may be charged an administration fee under your employer's arrangements. You should contact your human resources or payroll area and ask if an additional administration fee is charged.

Is there a limit on salary sacrifice contributions?

Yes. There are limits on the amount of money you can put into super that receive tax concessions. See our fact sheet *Super taxes, caps, payments, thresholds and rebates*. Salary sacrifice, personal deductible contributions and employer SG contributions are defined as 'concessional contributions'. The limit on concessional contributions is $25,000 a year.

Any excess contributions will be taxed at your marginal tax rate (plus Medicare and other levies). There will also be a charge to cover the cost of collecting this tax later than normal tax. If you exceed the cap, you can apply to the ATO to have up to 85% of the excess contributions returned so they don't count towards your non-concessional contributions cap.

You can use our *Contributions Calculator* to see the outcome of making contributions before tax (including personal deductible contributions) or after tax, or a combination of both. Go to **firststatesuper.com.au/ContributionCalculator**.

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 concessional contributions cap.

Let's see how it works

Joe is a teacher earning $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 before-tax contributions give Joe the best outcome. This is because a $5,000 before-tax contribution into super reduces Joe's taxable salary by this amount, which gives him an extra $1,625 in his after-tax pay. Although contributions tax of 15% is deducted from Joe's contribution (giving him an actual super contribution of $4,250), the table shows that before-tax contributions still give 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 other levies).

	Salary sacrifice	After-tax contribution
Gross salary	$65,000	$65,000
Less before-tax 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 Medicare and other 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 are subject to change.

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 financial year immediately preceding the 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).

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.
- Ask your pay office to explain the impact salary sacrificing will have on your overall salary package.

Find out if there are any specific forms that your employer would like you to complete.

If not, you can use the Contribution by payroll deduction form which you can download from our website. Once you've completed this form, give it to your payroll manager.

We're here to help!

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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, getting some advice can help.

StatePlus[1] is our financial planning business and is wholly owned by us. The team at StatePlus can answer simple questions about your super over the phone, or if your situation is more complex, prepare a full financial plan for you. It's all up to you, no obligation. Book online at **firststatesuper.com.au/advice** or call **1800 620 305** (Monday to Friday 8.15am to 8.15pm AEST/AEDT) to arrange an appointment.

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M2.4_SALSACRIFICE_07/19