SALARY SACRIFICE

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Salary sacrificing your employment income into superannuation increases your retirement savings and reduces the amount of income tax you pay.

BENEFITS

- Investing in superannuation boosts your savings to help meet your retirement goals. Salary sacrifice provides disciplined savings because your salary is automatically directed into your superannuation.
- A special concessional rate of tax applies to superannuation fund earnings whereas earnings from non-superannuation investments are generally taxed at marginal tax rates which may be typically higher.
- Your taxable income will reduce which also reduces your personal income liability.
- Amounts that are salary sacrificed into superannuation will be included in ordinary time earnings (OTE) to the extent that the amount sacrificed relates to OTE. Prior to 1 January 2020, amounts that an employee salary sacrificed into superannuation may have reduced your superannuation guarantee (SG) entitlement, as SG is only required to be paid on OTE (which did not include amounts salary sacrificed).

HOW IT WORKS

Salary sacrifice is an arrangement where you elect to receive part of your future salary as superannuation contributions instead of cash. The amounts sacrificed into superannuation are taxed concessionally instead of your marginal tax rate and this potential tax saving may help your retirement savings grow. If your 'income' is over the 'high income threshold' you may pay additional tax on all or part of your concessional contributions.

To be effective you need to have the arrangement in place with your employer before becoming entitled to the salary or wages. For example, if you put a new salary sacrifice arrangement in place today, it cannot cover the salary you earned last week because you are already entitled to that salary.

You need to confirm with your employer that you are able to salary sacrifice because it is not compulsory for employers to offer it. If your employer does offer salary sacrifice, you should also check what they require to put the arrangement in place.

It is recommended that you set out the terms of your salary sacrifice arrangement in writing. This should include an agreement on how often the superannuation contributions will be made and confirmation that your other workplace entitlements (such as SG and termination payments) will not reduce due to the lower cash salary.

CONTRIBUTION CAPS

The amount you can contribute to superannuation as a concessional contribution is capped each financial year.

Concessional contributions generally consist of contributions made from pre-tax income (such as SG and salary sacrifice) contributions for which a deduction has been claimed (personal deductible contributions).

If you exceed your concessional contribution cap, excess contributions must be withdrawn from superannuation and are taxed at your marginal tax rate, less tax already deducted within the fund. An interest penalty will also apply.

If you don't use the full amount of your concessional contribution cap you can carry-forward the unused amount and take advantage of it up to five years later.

Carry-forward contributions are calculated on a rolling basis over five years, but any amount not used after five years expires. These carry-forward rules only relate to concessional contributions into superannuation, not non-concessional contributions, as they have different caps.

WHAT YOU NEED TO CONSIDER

- Your take-home pay will reduce because of the salary sacrifice arrangement. You need to ensure you continue to have sufficient income to meet your needs.
- Salary sacrifice contributions are a reportable superannuation contribution. This means the contribution is not included in your assessable income, but is included on your tax return for the purpose of determining your eligibility to certain benefits, concessions and obligations.
- All contributions to superannuation are preserved until you meet a condition of release. You need to be sure that you do not need access to the amount sacrificed until you retire.
- The salary sacrifice contributions are added to your taxable component. Tax will be payable if you access these amounts before age 60 or if they are paid as a death benefit to non-tax dependents (e.g. adult children).
- You should confirm your tax situation with your accountant as well as the amount of deduction that is appropriate for your overall tax situation.
- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- All employees are now eligible to claim tax deductions for personal contributions. Your situation should be reviewed before that date.
- The government may change superannuation legislation in the future.

REFERENCES

You may wish to refer to the following websites for further information about salary sacrifice:

- www.ato.gov.au
- www.moneysmart.gov.au