

A guide to salary sacrificing

Salary sacrificing some of your pay to super can be a tax-effective way to increase your retirement savings. The amount you sacrifice is deducted from your assessable income and so may reduce your income tax liability.

So, instead of paying tax at your marginal rate on the money, when you salary-sacrifice your pay to super it becomes a taxable contribution received by the fund. The contribution (plus any future income earned from the investment) is generally taxed at a maximum rate of 15%.

Limits on salary sacrifices to super

Because of the generous tax concessions, the government restricts concessional contributions (which include superannuation guarantee, salary sacrifice and personal concessional contributions).

An employer can contribute to super on your behalf and claim a tax deduction for an unlimited amount, but if your concessional contributions exceed \$50,000 in a year, you'll pay tax at 31.5% (in addition to the 15% tax paid by the super fund) on the excess. You'll receive the tax bill but you'll be allowed to withdraw money from your super fund to pay it.

If you're 50 or older at any time to 30 June 2012, your concessional contribution limit is \$100,000 (instead of \$50,000) before excess tax is charged. The \$100,000 limit applies for each year you're over 50 until 30 June 2012, when it reverts back to \$50,000.

Things you should consider

Don't salary-sacrifice funds you think you may need before you retire. If you're younger, it may be more beneficial to pay off non-deductible debt (such as your home loan) instead.

If you're older, the reverse could be true. Generally, salary-sacrificed funds will have been taxed at 15% and once you retire you can access the funds tax-free and pay off outstanding debts. Make sure you have a written agreement with your employer before making the contributions.

This publication provides an overview or summary only and it shouldn't be considered a comprehensive statement on any matter or relied upon as such. This publication doesn't take into account your personal objectives, financial situation or needs.

It's important for you to consider these matters before making any financial decision and we recommend you seek help from a financial adviser.

Case study – Joan

Joan earns \$50,000 per annum and is considering sacrificing 6% (\$3,000) of her salary to her super fund.

	No salary sacrifice (\$)	\$3,000 (6%) salary sacrifice (\$)
Pre-tax salary	50,000	47,000
Tax on salary	9,350	8,285
Total super contributions	4,500	7,500
Tax on super contributions	675	1,125
Salary plus super benefits	44,475	45,090
Total tax paid on salary and super	10,025	9,410
Total tax saved		615

Although Joan's weekly income is less, her overall annual package has increased by \$615 (the tax she saves) and her super gets a boost for when she retires.

IMPORTANT INFORMATION

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