

## Introduction

Salary sacrifice contributions are made from your pre-tax salary into your superannuation fund. For many people, salary sacrificing presents the opportunity to save significant tax while investing for their future retirement. Salary sacrifice contributions are exempt from income tax and are instead taxed in your super fund at a flat rate of 15% (called contributions tax). Additional tax may apply, however you can avoid this if you take appropriate steps. The following information answers the many questions people have regarding salary sacrificing into superannuation.

**Note: Salary Sacrifice contributions and contributions from your employer (such as Superannuation Guarantee, 'SG') are referred to as 'Concessional contributions'.**

**AGEST accepts salary sacrifice contributions.**

### Can I make salary sacrifice contributions?

- ▶ Your ability to make salary sacrifice contributions will depend on your employment contract or the enterprise agreement for your work area.
- ▶ Contact your Manager or Human Resources department if you wish to confirm your eligibility for salary sacrifice.

### How much can I salary sacrifice?

- ▶ This will depend on your conditions of employment. Many employers allow their staff to sacrifice up to 100% of their salary into superannuation, however you will need to check your own situation with your employer.
- ▶ Aside from any conditions imposed by your employer, there is no limit to the amount you can salary sacrifice. However, you need to be aware of the taxes that apply to salary sacrifice contributions (see next question) as this will help you determine the level of salary sacrifice contributions that is appropriate for your situation.

### How are salary sacrifice contributions taxed?

- ▶ Contributions tax of 15% is deducted automatically when salary sacrifice contributions are received by the fund. The difference between this low rate of tax compared to your normal marginal income tax rate is where a significant amount of tax can be saved.
- ▶ Salary Sacrifice contributions are not subject to Fringe Benefits Tax (FBT).
- ▶ However, there are some additional taxes that **may** apply and you should take appropriate steps to minimise or remove any impact of the taxes displayed in the following table.

Tax	Rate
No Tax File Number (TFN) Tax	<p>Only applies if your superannuation fund does not have your TFN recorded on your account and your annual total of 'concessional contributions' (eg salary sacrifice and employer contributions) exceeds \$1,000.</p> <p>In such cases, the fund is required to tax those contributions at <b>46.5%</b> (that is, the 15% contributions tax rate + 31.5% penalty tax).</p> <p>This additional tax of 31.5% can be avoided just by ensuring your super fund has your TFN.</p> <p>Government Legislation allows a fund to refund this 31.5% additional tax to your account if you subsequently provide your TFN within the required timeframe.</p>

Excess Contributions Tax	<p>Only applies if your total concessional contributions (eg salary sacrifice and employer contributions) into superannuation for a financial year exceed the age based caps below.</p> <p>In such cases, a total tax of <b>46.5%</b> (that is 15% contributions tax + 31.5% Excess Contribution Tax) will apply to those concessional contributions over the cap.</p> <ul style="list-style-type: none"> <li>o <b>Age less than 50: \$25,000</b> Note: This cap will be indexed to Average Weekly Ordinary Time Earnings (AWOTE) in increments of \$5,000.</li> <li>o <b>Aged 50 and over: \$50,000</b> Note: This cap will not be indexed and will remain until July 2012 when the \$25,000 per annum (indexed) cap will apply to all ages.</li> </ul> <p><i>Note: Only mandated employer contributions are allowed beyond age 74.</i></p>
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### What taxes apply to these contributions when I want to start drawing on my super?

- ▶ Your salary sacrifice contributions form part of the *Taxable* component in your superannuation account. The *Taxable* component may be subject to tax depending on your age and the value of this component at draw down. The table below outlines these arrangements.

Age at draw down	Tax on Taxable component lump-sum withdrawals
Age 60 or over	- TAX FREE (this applies to both lump sum and pension draw downs)
Age 55 to 59	- TAX FREE upon draw down up to threshold (currently \$165,000) - Any amount drawn down which is over the threshold is taxed at 15% plus Medicare Levy
Aged 54 and under	- 20% plus Medicare Levy

### When can I access my salary sacrifice contributions?

- ▶ Generally speaking, you cannot access your superannuation (including your salary sacrifice contributions) until you have attained your preservation age (currently 55) and have retired from the workforce. You may however be able to access your funds via a transition to retirement account-based pension after attaining preservation age – please refer to the *Account-based Pensions* fact sheet for more information.

## Are there any costs involved in salary sacrificing?

- ▶ AGEST does **not** charge a fee for salary sacrifice or any other contribution type.
- ▶ However, you will need to check with your employer to find out if any administration fee or ongoing fees apply to a salary sacrifice arrangement in your workplace.
- ▶ Some employers outsource the management of these contributions to an external provider and in such cases, fees may apply. Contact your Manager or Human Resources department for details.

## Do salary sacrifice contributions qualify for the Government's co-contribution and other benefits?

No, co-contribution benefits are based on non-concessional (after-tax) contributions.

From 1 July 2009, salary sacrifice contributions are included as income when calculating:

- ▶ Income tested tax offsets
- ▶ Co-contribution benefit
- ▶ Medicare Levy Surcharge
- ▶ Centrelink benefits.

This means that eligibility for a co-contributions benefit is calculated on your pre-salary sacrifice income.

## What should I be aware of before implementing a salary sacrifice arrangement?

- ▶ You should check whether salary sacrificing has any impact on the way in which your employer determines other benefits. When you salary sacrifice, you are lowering your taxable income (as some of your gross salary is being redirected to your superannuation account).

Your employer may use the lower taxable income to determine items such as your annual leave entitlements or their own superannuation contributions for you.

If you are a lower income earner, the 15% tax on salary sacrifice contributions may be higher than your marginal income tax rate.

- ▶ You should understand that salary sacrifice contributions are generally not accessible until you have attained preservation age and have retired from the workforce.

You may however be able to access this money via a non-commutable income stream after attaining preservation age – please refer to the *Account-based Pensions* fact sheet for more information.

## An example of salary sacrifice

The example below has been calculated using the 2010/2011 income tax rates.

	No Salary Sacrifice	With Salary Sacrifice
<b>Salary</b>		
Gross Salary	\$85,000	\$85,000
Less Salary Sacrifice	\$0	\$10,000
= Taxable Salary	\$85,000	\$75,000
Less Income Tax (plus 1.5% Medicare)	\$20,675	\$17,175
= Take Home Salary	\$64,325	\$57,825
<b>Superannuation Contribution</b>		
Salary Sacrifice	\$0	\$10,000
Less 15% Contributions Tax	\$0	\$1,500
= Super Benefit	\$0	\$8,500
<b>Net Benefit</b>		
Take Home Salary	\$64,325	\$57,825
Plus Super Benefit	\$0	\$8,500
= Net Benefit	\$64,325 (B)	\$66,325 (A)
<b>Benefit of Salary Sacrificing (A) - (B)</b>		<b>\$2,000 p.a.*</b>

\* Assumes benefit draw-down after age 60.

*Please note - As with any financial investment, you may wish to seek professional financial advice to determine whether salary sacrificing is beneficial to your situation.*

## Want more information ?

You may wish to attend one of our many seminars run throughout the country. For more information on our seminars or to register, please go to [www.agest.com.au](http://www.agest.com.au) or email [seminars@agest.com.au](mailto:seminars@agest.com.au).

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