TRAC

The Retirement Advice Centre

The “Your Guide To” Series

Salary Sacrifice

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Your Guide to Salary Sacrifice

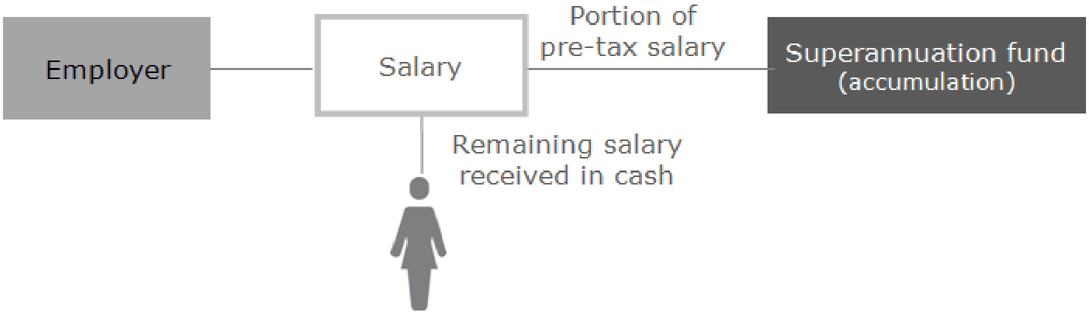
Salary sacrifice increases your retirement savings. Your pre-tax salary is directed into your super fund where it is generally taxed at a maximum rate of 15% instead of at your marginal tax rate.

What are the benefits?

- Your retirement savings can be accumulated tax-effectively.
- Your assessable income is reduced by the amount sacrificed, so you may pay less income tax.
- Earnings within super are generally taxed at a maximum rate of 15%.
- It creates a disciplined savings pattern because part of your salary is automatically directed into super.
- It can help you achieve the level of income you will need in retirement.

How does salary sacrifice work?

Your employer may allow you to enter into an agreement to salary sacrifice part of your pay into super. Under the agreement, your employer pays an agreed amount of your pre-tax pay as contributions into your super instead of paying it direct to you.



The amount sacrificed is taxed at a maximum rate of 15% in the super fund. This tax rate is generally lower than what most employees would pay if the amount is received in cash. This reduced tax means you have more invested for the long term than if you used your after-tax income to invest. With the added benefit of compounding, salary sacrifice can therefore provide a substantial boost to retirement savings.

Effective salary sacrifice arrangements

For a salary sacrifice arrangement to effectively reduce your taxable income, 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 the terms of your salary sacrifice arrangement out in writing. Some important items that should be included in an agreement are how often the super contributions will be made and confirmation that your entitlements (such as superannuation guarantee (SG) and termination payments) will not reduce as a result of the arrangement.

Reportable employer super contribution (RESC)

The amount salary sacrificed into super is an RESC which is reported on your payment summary at the end of the financial year.

Although you don't pay income tax on RESCs, the amount is included in the definition of some income tests, including (but not limited to):

- Medicare levy surcharge
- child support obligations
- eligibility for the Superannuation Co-contribution.

Contribution caps

Contribution caps apply to superannuation contributions. Personal deductible contributions count towards your concessional contributions cap. The caps for the 2015/16 financial year are as follows:

Age at 30 June 2016	Concessional contributions cap
Under 50	$30,000
50 or older	$35,000

If you exceed your concessional contributions cap, excess contributions will be taxed at your marginal tax rate (with a 15% tax offset) plus an interest penalty will apply. You will be able to elect to have up to 85% of excess contributions refunded from super – any amounts not refunded will count towards your non-concessional contributions cap.

Other things you should know

- A salary sacrifice arrangement reduces your take-home pay, so you need to be comfortable that you will continue to have sufficient cash flow to meet ongoing living expenses.
- You need to confirm with your employer that you are able to salary sacrifice into super because employers are not obligated to offer salary sacrifice arrangements.
- Concessional contributions to super are generally subject to 15% tax in the super fund. However if you earn more than $300,000 per annum, an additional 15% tax may apply.
- All contributions to super are preserved until a condition of release is met.