

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 deducted 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 \$25,000 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.

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.

Example

Joan earns \$50,000 and is considering sacrificing 6% of her salary to her super account. The table compares no salary sacrifice vs. the 6% salary sacrifice.

	No salary sacrifice	6% salary sacrifice (\$3,000)
Salary (pre tax)	\$50,000	\$47,000
Tax on salary	\$8,547	\$7,527
Salary (after tax)	\$41,453	\$39,473
Super contributions	\$4,500	\$7,500
Tax on super contributions	\$675	\$1,125
Salary + super benefits	\$45,278	\$45,848
Total tax paid (salary & super)	\$9,222	\$8,652
Total tax saved	–	\$570

Although Joan's weekly income is \$38.07 less, her annual super contributions have increased by \$3,000 and her overall annual package increases by \$570 (the amount of tax she saves). Over the long term, this strategy has clear benefits for Joan, and gives a huge boost to her super for when she retires.

IMPORTANT INFORMATION

This information was prepared by Securitor Financial Group Ltd, ABN 48 009 189 495 AFSL & Australian Credit Licence (ACL) 240687 (Securitor) and is current as at 1 July 2012.

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