

SALARY SACRIFICE

Increase super and reduce tax.

The strategy in a nutshell

Salary sacrificing involves sacrificing part of the cash salary from your employer for the provision of other benefits, such as additional super contributions. In order to be effective, a salary packaging arrangement can only be prospective, i.e. you can only effectively sacrifice salary you haven't yet earned. This means the lead up to 30 June is an appropriate time to review salary packaging opportunities.

The benefits of salary sacrificing are two-fold

Firstly, salary sacrificing to super may help to reduce your income tax liability. Secondly, you are increasing your contribution to your super account.

Complying super funds are taxed at a maximum rate of 15%. Compare this to your own marginal tax rate – the tax on your super can often be much lower. It makes sense to put additional money into super, ensuring a higher level of savings to draw on when you're ready to retire.

The strategy

Salary sacrificing involves sacrificing part of your cash salary for the provision of other benefits. The most common benefit is additional super contributions. You can only effectively sacrifice salary you haven't yet earned which presents two good reasons to review your salary sacrificing opportunities before 30 June 2011:

1. Bonuses payable before 30 June 2011

Some employees become entitled to a bonus on or around 30 June. If you haven't been informed of your bonus entitlement yet, you still have time to enter into an effective salary packaging arrangement. However, once you've been informed of your entitlement, it's too late, as the Australian Taxation Office will deem you to have already earned that income.

2. Remuneration arrangement for 2011-12

If your remuneration arrangement for the 2010-11 year is reviewed, and possibly adjusted around 30 June 2011, it's an ideal time to consider making additional super contributions during the coming year. You can decide how much additional superannuation you wish to contribute during the coming year and it will be taken from your salary. Although your regular pay packet will be slightly reduced, you avoid making one large lump sum contribution, which could impact your cash flow requirements.

Limitations and other considerations

There is a limit on the amount of your salary that can be sacrificed to super and be taxed concessional at 15% as shown in the following table.

Your age as at 30 June 2011	Maximum concessional contributions
Under 50	\$25,000
50 and over	\$50,000

These limits include any compulsory Superannuation Guarantee (SG) contributions your employer is required to pay. It is also important to realise that if your level of concessional contributions exceeds the relevant cap, the excess amount will be taxed at an additional 31.5%. While you don't have to pay income tax personally on any amount sacrificed to super, the amount sacrificed will be taxed at 15% within the super fund. However, you should compare this to the income tax you would personally have paid if you'd taken the same amount as salary. Also note that you cannot access the contributions until you are eligible to access your super savings.

Who is salary sacrificing available to?

This strategy is available to any employee whose employer offers salary packaging arrangements. If you're unsure if this is available to you, contact your employer's Human Resources department to see what salary packaging arrangements are available and what (if any) rules are in place regarding the arrangements.

Case study

Peter (aged 40) is currently employed on a base salary of \$75,000 plus \$6,750 SG contributions. Peter is considering salary sacrificing an additional \$10,000 of salary to super.

The table shows an example of potential outcomes of Peter salary sacrificing the \$10,000 and taking the \$10,000 as part of his normal salary.

	Salary sacrificing \$10,000 to super	Taking the \$10,000 as salary
(A) Peter's pre-tax salary	\$65,000	\$75,000
(B) Tax payable by Peter (including Medicare levy)	\$13,925	\$17,175
(C) Total employer contributions to super	\$16,750	\$6,750
(D) Net super contributions (after 15% contributions tax) Value is equal to (C) – 15%	\$14,238	\$5,738
(E) Peter's after-tax salary Value is equal to (A) – (B)	\$51,075	\$57,825
(F) Peter's net worth for the year (salary and super contributions) Value is equal to (D) + (E)	\$65,313	\$63,563

By salary sacrificing Peter has increased his net worth by \$1,750. This represents the tax saving that has been achieved by using super as the wealth accumulation vehicle. An assumption has been made that no application fees are applicable to super contributions, under row (C).

IMPORTANT INFORMATION

Information current as at 1 January 2011. The information in this publication does not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it. Past performance is not a reliable indicator of future performance. This flyer provides an overview or summary only and it should not be considered a comprehensive statement on any matter or relied upon as such. This information was prepared by Securitor Financial Group Ltd, ABN 48 009 189 495 AFSL 240687 (Securitor). Securitor financial planners are authorised representatives of Securitor.