Fact sheet - June 2019

Salary sacrifice

Sacrificing some of your salary into superannuation can be a tax effective way to boost your savings for retirement.

What is salary sacrifice into superannuation?

Salary sacrifice is an arrangement between you and your employer where you agree to forgo part of your before-tax salary in return for your employer making super contributions of the same value.

What are the benefits?

Salary sacrificing into super may increase the level of your retirement savings and may have the added benefit of reducing the income tax you pay. This is because the 'sacrificed' portion goes directly into super and is generally taxed at a maximum rate of 15%[1] contributions tax instead of your marginal tax rate.

Who can salary sacrifice?

Whether salary sacrifice is right for you will depend on your personal circumstances and income level. Generally speaking, if having a more comfortable retirement is your goal and your marginal income tax rate is 19% or higher, salary sacrifice may be a tax effective way to save for your retirement. If you are able to contribute more towards your retirement now, salary sacrifice may make good financial sense.

What are the caps relating to salary sacrifice?

While there are many factors that determine the appropriate amount of salary sacrifice for you, one of the main considerations is the concessional contributions cap. Contribution caps limit how much you can contribute to your super before additional tax is charged.

The concessional contributions cap is $25,000 for the 2018/2019 financial year regardless of age. If you exceed your concessional contributions cap the excess contributions are generally included in your assessable income and taxed at your marginal rate.

You will receive a non-refundable tax offset equal to 15% of the excess contributions. An interest charge also applies to account for the deferral of tax[2]. Concessional contributions include, but are not limited to, salary sacrifice contributions, superannuation guarantee contributions, other employer contributions and personal tax deductible contributions.

Individuals with income plus concessional contributions greater than $250,000 for the 2018/19 financial year may have certain concessional contributions taxed at 30% (up to an additional 15%). The higher rate will not apply to concessional contributions exceeding the concessional contributions cap. These are already subject to the individual's marginal income tax rate.

You should also consider what age you intend to retire and access your super. If you are under 60 years of age, you may pay tax on withdrawing a portion of your benefit.

What are the rules?

- A salary sacrifice arrangement is an agreement between you and your employer, since it is not compulsory for your employer to offer salary sacrifice.
- The salary sacrifice agreement must be made before you earn the salary and relate to your future earnings.
- Salary sacrifice contributions will be deducted from your salary before income tax is calculated and are generally taxed at a maximum rate of 15%[1] (contributions tax) in the fund.
- Salary sacrifice contributions are considered to be employer contributions.

Case study - meet Carol

Carol (age 45) earns $70,000 p.a. and wants to increase her retirement savings. She has $3,275 of after-tax income (surplus cashflow) to invest. This is equivalent to $5,000 p.a. of pre-tax income she can salary sacrifice into super.

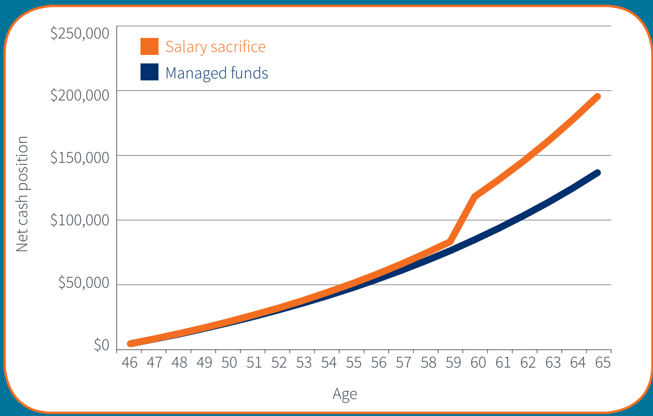
Carol decides to salary sacrifice her $5,000 p.a. and looks forward to being $60,406 better off by the time she's 65. The net value of Carol's super benefit increases at age 60 as any withdrawal from super will be tax free.

Is there a downside to salary sacrificing?

- Your employer may decrease your superannuation guarantee (SG) contributions because salary sacrifice contributions are considered to be employer contributions which count for SG purposes. This could reduce some of the benefits gained by salary sacrificing.
- Once you put money into superannuation it is 'preserved'. This means that it generally must remain there until you retire on or after preservation age or you reach age 65.
- Your employer may place a limit on the amount of your salary that can be sacrificed to superannuation.
- Salary sacrifice contributions count as a measure of income for many Government benefits and concessions.
- The potential to exceed the concessional contributions cap, which may result in additional taxes.
- Superannuation and tax laws do not govern when salary sacrifice contributions deducted from your salary must be paid to your superannuation fund. You will need to address this in your salary sacrifice agreement.

From 1 July 2017, wages and salary earners may wish to consider personal tax deductible super contributions as an alternative to salary sacrifice.

Value over 20 years (after redemption of investment)



Other factors may also impact this strategy. You should seek independent financial advice before undertaking a salary sacrifice strategy.

Assumptions: For the purpose of the case study Carol's marginal tax rate is 34.5% (including Medicare Levy) until 65 years of age. Capital Gains Tax (CGT) and income tax are taken into account at all times. CGT discount for 12-month ownership applied (50% for individuals, 33.33% for super funds). All earnings are reinvested (less tax for income).

Tax rate for super funds is 15%. Returns from the portfolio are 8% (5% capital gain, 3% income) both inside and outside super. 20% of the income from the portfolio is franked.

This working example is for illustrative purposes only. Past performance is not indicative of future performance.

Notes

1. An additional 15% tax may apply to certain concessional contributions if your income plus concessional contributions for these purposes exceeds $250,000 in the 2018/19 financial year.

2. Individuals can elect to withdraw up to 85% of their excess concessional contributions from their superannuation. Depending upon the amount effectively withdrawn, excess concessional contributions may also count towards the non-concessional contributions.

Let's look at the numbers (2018/19 financial year)

	Investing outside of super	Salary sacrificing into super
Amount Carol wishes to invest p.a.	$5,000	$5,000
Tax	$1,725 Carol's effective tax rate is 34.5% (including Medicare levy)	$750 salary sacrifice contributions are taxed at 15%
Net amount available to invest p.a.	$3,275	$4,250
Projected savings after 20 years	$136,219	$196,625

Need more information?

If you would like to discuss this further or how it might impact you, call your financial adviser.

millennium3
leadership | advice | community

Millennium3 Financial Services Pty Ltd ABN 61 094 529 987 AFSL 244252

This information is of a general nature only and neither represents nor is intended to be personal advice on any particular matter. Millennium3 Financial Services Pty Ltd strongly suggests that no person should act specifically on the basis of the information in this document, but should obtain appropriate professional advice based on their own personal circumstances including a personal financial advice from a licensed financial adviser. This information is current at May 2019 but may be subject to change. M3/SCCSS/0619/V7