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Salary sacrifice

Salary sacrificing your employment income into superannuation increases your retirement savings and reduces the amount of income tax you pay.

Benefits

- Investing in superannuation boosts your savings to help meet your retirement goals. Salary sacrifice provides disciplined savings because your salary is automatically directed into your super.
- The rate of return inside superannuation may be higher after-tax than investing outside superannuation. This is because earnings inside superannuation are taxed at a maximum rate of just 15%, whereas earnings from non-superannuation investments are generally taxed at your marginal tax rate. This helps your savings to grow faster.
- Savings can grow by making contributions from pre-tax money, with only 15% tax deducted from the contributions. High income earners may pay an additional 15% tax on all or part of the concessional contributions.
- Your taxable income will reduce which also reduces your income tax liability. This can increase your disposable income or increase the amount you can invest.
- Tax efficiencies can also be created by carefully planning when disposing of assets to reduce capital gains tax.
- The additional contributions can help to cover the cost of insurance premiums if you hold insurance inside superannuation.

How it works

Salary sacrifice is an arrangement where you elect to receive part of your future salary as superannuation contributions instead of cash. The amounts sacrificed into superannuation are taxed at just 15% instead of your marginal tax rate and this tax saving helps your retirement savings grow. If your ‘income’ is over $250,000 you may pay an additional 15% tax on all or part of your concessional contributions.

To be effective 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 out the terms of your salary sacrifice arrangement in writing. This should include an agreement on how often the super contributions will be made and confirmation that your other workplace entitlements (such as superannuation guarantee (SG) and termination payments) will not reduce due to the lower cash salary.

Contribution caps

There is a cap on how much can be contributed as concessional contributions each year. The concessional contribution cap for 2018/19 is $25,000. The removal of the age based caps ensures that everyone has access to the same contribution limits and that tax is not applied on an age basis.

This cap includes not only any personal contributions that you claim a tax deduction for, but also any amounts paid on your behalf by an employer. There are certain other contributions that may also count (eg distributions from superannuation fund reserves).

If the cap is exceeded you will pay tax on the excess at your marginal rate less the 15% already paid within your superannuation fund. Interest penalties will also apply. You can withdraw the excess from superannuation so it is not also counted towards the non-concessional contributions cap.

Catch up Concessional Contributions

From 1 July 2018, you may be able to accrue your unused Concessional Contributions and carry these amounts forward to enable you to make Concessional Contributions in excess of the annual cap in subsequent years. Amounts will be carried forward on a five year rolling basis. As the new regime will only apply to unused amounts accrued from 1 July 2018, the first year you may be eligible to use a carried forward amount will be the 2019/20 financial year. To make use of a carried forward Contribution Contributions, your super balance cannot exceed $500,000 on the 30 June of the previous financial year. Unused amounts which you have not used within five years cannot be carried forward.

Low Income Superannuation Tax Offset (LISTO)

From 1 July 2017, if you have an adjusted taxable income of less than $37,000 you may receive a LISTO contribution from the Government paid into your superannuation fund equal to 15% of your total concessional super contributions for an income year, capped at $500.

The ATO will determine your eligibility for the Low Income Superannuation Tax Offset and advise your superannuation fund annually.

Consequences

- Your tax-home pay will reduce because of the salary sacrifice arrangement. You need to ensure you continue to have sufficient income to meet your needs.
- Salary sacrifice contributions are a reportable super contribution. This means the contribution is not included in your assessable income, but is included on your tax return for the purpose of determining your eligibility to certain benefits, concessions and obligations.
- All contributions to super are preserved until you meet a condition of release. You need to be sure that you do not need access to the amount sacrificed until you retire.

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- The salary sacrifice contributions are added to your taxable component. Tax will be payable if you access these amounts before age 60 or if they are paid as a death benefit to non-tax dependents (eg adult children).
- Tax and other penalties apply if you exceed your concessional contribution limits.
- From 1 July 2017 the total amount of super monies used to start pensions will be capped at $1.6 million. All superannuation income streams are assessed against the transfer balance cap regardless of when it first commenced. You can retain excess amounts in your accumulation accounts where tax at 15% continues to apply.
- You should confirm your tax situation with your accountant as well as the amount of deduction that is appropriate for your overall tax situation.
- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- From 1 July 2017 if you are under the age of 65 (or aged 65 to 74 and meet the work test), you will be able to claim a tax deduction for personal super contributions. This may offer a more suitable alternative depending on your circumstances. The government may change superannuation legislation in the future.

Date: 1 July 2018