Superannuation – Salary sacrifice

Salary sacrificing your employment income into superannuation may increase your retirement savings and reduce 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 superannuation.
- The after-tax rate of return inside superannuation may be higher 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 which could be higher. This could help your savings to grow faster.
- Salary sacrificed contributions are concessional contributions (along with some other types of contributions such as employer contributions) and are assessed against the concessional contributions cap. These contributions are taxed at up to 15%. Some high income earners may pay an additional 15% tax on all or part of their concessional contributions.
- Your taxable income will reduce which also reduces your income tax liability.
- 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 up to 15% instead of your marginal tax rate which may be up to 47%.This tax saving could help your retirement savings grow. If you’re a high income earner with income from certain sources that is greater than $250,000 (in 2018/19) you may pay an additional 15% tax on all or part of your concessional contributions.

To be effective you can only salary sacrifice salary and other benefits to which you haven’t yet accrued or become entitled. This generally means that you need to have the salary sacrifice 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 facilitate 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 superannuation 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.

This cap includes any contributions salary sacrificed but also superannuation guarantee and personal deductible contributions. 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 make an election to withdraw the excess from superannuation. If you don't make this election, the excess concessional contribution will also be counted towards the non-concessional contributions cap. Additional tax penalties may apply if you also exceed the non-concessional contribution 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 are carried forward on a five year rolling basis. As the regime only applies to unused amounts accrued since 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 concessional contribution, your total superannuation balance (which includes all superannuation pension and accumulation accounts) 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)

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 superannuation 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.

Risks and Consequences

- Your take-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 reportable superannuation contributions. 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 Government benefits, concessions and obligations.
- All contributions to superannuation 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 meet one of these conditions.
- The salary sacrifice contributions are added to your taxable component. Tax will be payable if you access these amounts before age 60, if they are paid as a death benefit lump sum to non-tax dependants (eg adult children), or if they are received by an eligible beneficiary as a

death benefit income stream where you're under age 60 when you pass away and your beneficiary is also under 60.

- Tax and other penalties apply if you exceed your concessional contribution limits.
- The total amount of superannuation money used to start pensions is subject to a transfer balance cap ($1.6 million in 2018/19). You can retain excess amounts in your accumulation accounts where tax on earnings at up to 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.
- 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 superannuation contributions. This may offer a more suitable alternative depending on your circumstances.
- The Government may change superannuation legislation in the future.

Version: 1.06