

Salary Sacrifice

INVESTOR GUIDE

A common question for many individuals is how they should invest additional funds. Should it be invested into super (either via salary sacrifice or an after tax contribution), or invested outside of super (such as directly into managed funds or shares)?

In many cases, you can have a higher investment amount by using a salary sacrifice arrangement, than if you made non-concessional (ie after-tax) contributions to super or from having an investment outside of super.

What is salary sacrifice?

Salary sacrifice is forgoing future gross salary or wages to receive super contributions. This means that some of your pre-tax salary is contributed to super either as a lump sum contribution or as regular payments from your salary. Generally, there must be a formalised agreement between you and your employer that is enacted before the salary sacrifice arrangement occurs. The agreement can only relate to future pay periods and the salary sacrifice contributions must be made to a complying super fund.

Salary sacrifice contributions are known as 'concessional contributions'.

How much of my pre-tax salary or wages can I salary sacrifice?

Where your employer allows you to salary sacrifice into super, there is a limit on the amount of allowable concessional contributions that can be made each financial year. Concessional contributions will be capped at \$25,000 for the 2009/2010 financial year, for those under 50 years of age. A transitional period applies for people aged 50 or over, to be able to contribute up to \$50,000 annually until 30 June 2012. These caps may change in future years.

What happens if you exceed the concessional limit?

Amounts in excess of these limits in a financial year (as identified by the Australian Taxation Office) will be taxed at 46.5%. This tax may be paid by the individual direct to the ATO, or can be withdrawn from the superannuation fund.

How long can you salary sacrifice?

If your employer agrees, there is no limit to the timeframe that you can salary sacrifice. Although salary sacrifice is only permitted up to age 74 (if you are eligible to make contributions to super).

How can salary sacrifice be effective for you?

- It can reduce your assessable income for taxation purposes meaning that the portion of income you salary sacrifice (ie contribute towards super out of your pre-tax salary) is not taxed at your marginal tax rate. Salary that is sacrificed to super will only be taxed at 15% pa. This is low compared with rates up to 45% plus Medicare Levy if you receive it in the form of salary.
- Contributing more into your super will build up more savings for your retirement.

How can salary sacrifice be effective for your employer?

- Employers may be eligible to claim a tax deduction for the salary sacrificed super contributions.
- It can be an attractive additional employment benefit for employees as automatic payroll deductions make it easy to increase savings for retirement.

What if I am a low income earner?

You will need to talk to your financial adviser about the tax impact of salary sacrificing as there may be less tax advantages if the tax payable on your income is the same as tax payable on your super contributions.

What if I am a high income earner?

You will need to talk to your financial adviser about the impact of salary sacrificing on your concessional contributions limit and to consider your financial situation as a whole.

Can I access my salary sacrifice contributions?

No, the salary sacrifice contributions you contribute towards super are preserved and must stay within the super system until you meet a condition of release or retirement from the workforce – refer to the preservation ages below.

Date of Birth	Preservation Age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
1 July 1964 or later	60

How do I know if salary sacrificing is appropriate for me?

Speak to your financial adviser and/or accountant so they can advise you whether salary sacrificing is suitable for you.

How do I arrange salary sacrifice

Speak to your employer to find out if they offer salary sacrifice arrangements to their employees.

Customer Case Study

Felicity is aged 32. She is an engineer who receives a salary of \$85,000. Felicity wishes to start to save for her retirement and is unsure about whether she should invest additional funds in her super account (either via salary sacrifice or an after tax contribution), or if she should invest outside of super in a managed fund.

Felicity has sought advice from her financial adviser, Gary who has determined that based on her cash flow, she could afford to invest \$10,000 this financial year (and also possibly in the future).

Gary showed Felicity the following comparison of the various options she could choose to pursue:

Option 1: Salary sacrifice \$10,000 to super

Option 2: Make a \$10,000 non-concessional (after-tax) contribution to super

Option 3: Invest \$10,000 in a managed fund

The table below illustrates that Option 1 where Felicity salary sacrifices \$10,000 into super delivers her the highest net investment amount, which means she will have more money working for her. In addition, all of the investment earnings will attract a lower tax of 15% in super, whereas outside of super (ie. the managed fund option) Felicity's investment earnings will be taxed at her marginal tax rate, which is 40%#.

	Salary Sacrifice	Undeducted Contribution	Managed Fund
Surplus of salary	\$10,000	\$10,000	\$10,000
Income tax [^] #	NIL	\$4,000	\$4,000
Contributions tax	\$1,500	NIL	NIL
Net investment	\$8,500	\$6,000	\$6,000

[^] This assumes Felicity's income is subject to a tax rate of 40%.

This excludes Medicare Levy of 1.5%.

Please note this example does not take into account any lump sum tax which may be payable on withdrawal. Although, any lump sum withdrawals from a taxed source are tax free from age 60 onwards.

This example also does not take into account any imputation credits that can be received by an individual (who has an Australian equity component in their managed fund) or super fund (where the individual has selected an Australian equity investment option in the super fund). This is because assuming that the asset allocation and level of franking is the same in the managed fund and the super fund, the amount of imputation credits would be the same in each case.



TOWER Australia Limited

ABN 70 050 109 450 AFSL Number 237848
80 Alfred Street Milsons Point NSW 2061
Call 02 9448 9000 Fax 02 9448 9100

TOWER Australian Superannuation Limited
ABN 69 003 059 407 AFSL 237851

www.toweraustralia.com.au

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