

## **LONG SERVICE LEAVE AND SALARY SACRIFICE**

### **AMENDMENT TO THE AWARD**

The Local Government (State) Award 2020 ('the Award') allows employees to receive some of their accrued long service leave as income, provided they salary sacrifice an equivalent amount into their Active Super account.

#### **When is this change effective?**

The amendment to the Award took effect on 1 July 2016. However, it is at the local government employer's discretion to offer these salary sacrifice arrangements to their employees.

#### **Who can take advantage of this arrangement?**

Anyone employed under the Award can take advantage of the amendment, as long as:

- they have an 'excess' long service leave entitlement which has accrued under the Award in respect of at least 10 years' service (refer to the next section)
- their employer agrees to the arrangement and they are not a holder of a temporary resident visa (note that New Zealand citizens in Australia do not hold a temporary resident visa and, as such, are eligible for the payment)
- they are already (or become) a member of Active Super.

#### **What is 'excess' long service leave?**

The Long Service Leave Act provides employees with eight weeks' long service leave when they have reached the 10-year service milestone and an additional four weeks for every subsequent five years of service.

Individuals employed under the Award accrue long service leave in excess of the entitlement under the Act. Only the excess leave accrued under the Award can be used to facilitate this salary sacrifice arrangement. Long service leave accrued under the Act cannot be used.

The long service leave entitlements and potential excess leave are shown in the following table:

SERVICE MILESTONE	ENTITLEMENT UNDER LONG SERVICE LEAVE ACT			ENTITLEMENT UNDER LOCAL GOVERNMENT (STATE) AWARD		EXCESS AVAILABILITY TO SALARY SACRIFICE INTO ACTIVE
	AT MILESTONE TOTAL		CUMULATIVE	AT MILESTONE TOTAL	CUMULATIVE	
10 years	8 weeks <sup>1</sup>		8.67 weeks <sup>1</sup>	13 weeks	13 weeks <sup>1</sup>	4.34 weeks
15 years	Additional 4 weeks	4	12.99 weeks <sup>1</sup>	Additional 6.5 weeks	19.5 weeks <sup>1</sup>	6.51 weeks
20 years	Additional 4 weeks	4	17.33 weeks <sup>1</sup>	Additional 11 weeks	30.5 weeks <sup>1</sup>	13.17 weeks
25 years	Additional 4 weeks	4	21.67 weeks <sup>1</sup>	Additional 11 weeks	41.5 weeks <sup>1</sup>	19.83 weeks
30 years	Additional 4 weeks <sup>2</sup>	4	26 weeks <sup>1</sup>	Additional 11 weeks <sup>2</sup>	52.5 weeks <sup>1</sup>	26.5 weeks

1. Reduced by any long service leave already cashed out or taken as leave.

2. Leave continues to accrue at this rate beyond 30 years' service.

### What are the advantages of entering into this arrangement?

The potential advantages for employees are:

- they can increase their contributions to super without decreasing their take home pay
- they are effectively paying only 15% tax on the value of their long service leave (long service leave taken as leave or cashed out as a lump sum would incur a PAYG tax rate).

### How does the arrangement work?

An individual with an excess long service leave entitlement can choose to take that leave as additional income, provided they salary sacrifice the equivalent amount of their existing salary into Active Super.

### Example: Accumulation Scheme

George has just reached his 10-year service milestone with council. Alongside the 8.67 weeks of long service leave he's accrued under the Act, George has accrued 13 weeks under the Award, giving him an excess of 4.34 weeks available to salary sacrifice into Active Super. He decides that he'd like to cash out four weeks of his excess long service leave and salary sacrifice the equivalent value into his Accumulation Scheme account from his normal income.

George's gross salary with council is \$104,000 (\$2,000 per week). In agreement with council, George cashes out his four weeks of excess long service leave at a rate of \$2,000 per week. Under this arrangement, George must salary sacrifice exactly the same amount (\$2,000 per week) from his pay into his Active Super account.

The result is that George is still receiving a gross weekly income of \$2,000. Additionally, \$2,000 per week is being salary sacrificed into super and is being taxed at only 15% (providing a net fortnightly investment into super of \$1,700, or \$6,800 over the full four-week period). In terms of Super Guarantee (SG) entitlements, George's overall position hasn't altered. Because his excess long service leave is not being paid out as part of a termination of employment, it is considered to be Ordinary Time Earnings (OTE) and attracts SG at the current SG rate. However, the \$2,000 being salary sacrificed does not attract SG payments. In other words, George's employer continues to pay weekly SG for George at the current SG rate multiplied by \$2,000.

### **Example: Retirement Scheme and Defined Benefit Scheme**

For members of the Retirement Scheme and Defined Benefit Scheme, the arrangements described in the previous Accumulation Scheme example would work in exactly the same way and members would ordinarily make their salary sacrifice contributions into their Other Contributions (OC) account.

### **What impact does this arrangement have on an employee's concessional cap?**

Like other concessional contributions, salary sacrifice contributions made under this arrangement count towards the employee's concessional cap.

Employees entering into this arrangement should be mindful of any potential impact of the salary sacrifice contributions on their own concessional cap.

### **Can local government employees enter into this arrangement with another super fund?**

The amendment to the Award stipulates that employees entering into this salary sacrifice arrangement must make the salary sacrificed contributions to Active Super. They cannot contribute them to another super fund.

Local government employees wishing to take advantage of this arrangement, but who do not currently have an Active Super account, must open an account with Active Super.

### **WHERE CAN I GET FURTHER INFORMATION?**

If you have any questions, please contact your HR department. And of course, if you would like professional and affordable financial advice tailored to your individual circumstances, call us on 1300 547 873 to make an appointment with an Active Super financial planner near you.

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