

THE FACTS ABOUT SALARY SACRIFICE

WHAT IS SALARY SACRIFICE?

Salary sacrifice is an agreed arrangement with your employer for you to receive part of your gross salary as a benefit rather than as a salary. The value of this benefit is paid from your gross salary, i.e. before tax.

This means that your gross salary is reduced by the cost of the benefit before the income tax is calculated.

Tax savings with salary sacrifice

The most popular form of salary sacrifice is a regular contribution into super from your gross salary.

There may be some tax benefits in doing this.

Firstly, sacrificing some of your salary into super reduces your taxable salary. As a result, you may pay less income tax. Secondly, while no income tax is levied on the contribution amount sacrificed out of your salary, tax is levied on this amount when it enters the super fund at 15%¹ which is lower than the marginal tax rate for most people.

It's your marginal tax rate that determines the amount of any potential tax savings you receive through salary sacrifice.

TAXABLE INCOME	MARGINAL TAX RATE ²
0 to \$18,200	Nil
\$18,201 to \$45,000	19¢ for each dollar over \$18,200
\$45,001 to \$120,000	\$5,092 plus 32.5¢ for each dollar over \$45,000
\$120,001 to \$180,000	\$29,467 plus 37¢ for each dollar over \$120,000
\$180,001 and over	\$51,667 plus 45¢ for each dollar over \$180,000

Source: ATO

¹ The tax rate is 30% if your annual income (including concessional contributions) exceeds \$250,000 in that financial year.

² Medicare levy of 2% is usually payable in addition to the marginal tax rate. Tax offsets may apply to particular income levels.

Put another way, most people with a taxable income of more than \$18,200 can reduce the tax on their taxable income by sacrificing part of their salary and contributing that amount into their super.

This is due to their marginal tax rate being higher than the 15% tax on super contributions.

THE LIMITS ON SALARY SACRIFICE CONTRIBUTIONS

There is a cap on the concessional or pre-tax contributions you can make each financial year. It's important to note that concessional contributions include not only your salary sacrifice contributions and personal deductible contributions, but also the super guarantee contributions made by your employer.

The concessional contribution cap is currently \$27,500 per annum for everyone, regardless of your age. If your total superannuation balance was less than \$500,000 at 30 June of the previous financial year, you can make 'carry-forward' concessional super contributions on a rolling five-year basis from 1 July 2018. Amounts carried forward that have not been used after five years will expire.

IS SALARY SACRIFICE FOR YOU?

It's important to remember that any salary sacrifice arrangement will reduce your take home pay. However, depending on your level of income, salary sacrifice can be a very tax-effective way to contribute more to your super.

However, incentives for low- and middle-income earners and the availability of rebates in relation to spouse contributions mean that for some people salary sacrifice may not always be the most tax efficient way to contribute to super.

Ultimately, what's best for you will depend on your particular circumstances.

To see what impact salary sacrificing may have on your retirement savings, take a peek into the future with our [Retirement Projection calculator](#).

If you would like to set up salary sacrificing, you can provide one of the below forms to your employer.

- [Accumulation members](#)
- [Retirement or Defined Benefit members](#)

For further information or advice about your super investment, you can call us on 1300 547 873, between 8.30am to 5.00pm, Monday to Friday.