Salary sacrifice

Making super less taxing

While you're saving for your retirement, it's worth thinking about what you want to be doing when you finish working, and how much it might cost you.

A comfortable retirement isn't about fancy cars and expensive meals out every night of the week. It's simply about maintaining the lifestyle you've worked so hard to build up.

It's no more than you'd expect after a lifetime of hard work.

But it doesn't come cheaply. The latest estimates suggest a comfortable retirement costs around $62,269 a year for a couple[1]. And with Australians living longer and enjoying more active retirements than ever, your savings will need to last the distance.

But with the average super balance at retirement standing at around $198,000 for men and $112,000 for women, there's a big gap between hope and reality for many people when they retire.

Closing the gap

To make up the shortfall in your super, you'll need to save more yourself. And one way to do that is through salary sacrifice.

> Salary sacrifice is one of the most tax-effective ways to boost your super. You can pay up to $25,000 into your super from your pre-tax salary at the concessional 15% rate of tax (or 30% if you earn over $250,000 a year). That's a big tax saving for most people on their usual marginal tax rate, which can be up to 47%.

It's a great way to close the gap between where you are now and where you want to be in retirement, and really own your tomorrow.

What are concessional contributions?

Concessional contributions are payments made into your super before tax. These can include, payments made by your employer and salary sacrifice contributions.

Contributions for which you claim a tax deduction are also classified as concessional contributions.

Your superannuation fund will generally pay 15%[2] tax on these contributions.

What is salary sacrifice?

When you salary sacrifice into super, you enter into an arrangement with your employer to give up part of your before-tax salary and/or bonus. Instead, your employer pays this amount into your super account.

This is in addition to the compulsory superannuation guarantee amount your employer is required to contribute.

What are the benefits?

One of the benefits of salary sacrifice contributions is that they are generally taxed in the super fund at 15% instead of your marginal tax rate, which could mean a saving of up to 32% (including Medicare levy)[2].

That's because the amount you give up is treated as an employer contribution and is not included in your assessable income. Plus once you're 60 and access your super (for example at retirement), you can receive your super tax free, which means your super savings can be even more tax-effective.

There are limits!

The annual individual limit on concessional contributions, including employer superannuation guarantee and salary sacrifice, is generally $25,000. This cap also includes personal contributions you make for which you claim a tax deduction.

For the 2019–20 financial year, you may also be eligible to add any 'unused concessional contributions' from the 2018–19 financial year to the $25k concessional cap this year, provided your Total Super Balance (TSB) at 30 June 2019 was less than $500,000. TSB is all super, including account based pensions, held as at 30 June in the preceding financial year (2018–19 for the 2019–20 financial year).

For example, if in the 2018–19 financial year only $10,000 of your $25,000 concessional contributions cap was used, you will then have $15,000 of the cap unused. If your TSB at 30 June 2019 is less than $500,000, your concessional contribution cap for 2019–20 is effectively $40,000, being the normal $25k plus the $15k unused. You can find out if you have any unused concessional contributions from 2018–19, plus your TSB as at 30 June 2019, from your MyGov account.

Excess concessional contributions are added to an individuals taxable income, and taxed at their marginal tax rate, less a 15% tax offset for tax already paid on the contributions plus an interest charge to reflect that the excess has been in the concessional superannuation environment.

People have the choice to withdraw excess concessional contributions from their superannuation fund. If they are not withdrawn, any excess concessional contributions will also be

1 ASFA Retirement Standard December Quarter 2019. Based on a couple retiring they will require approximately $59,971 annually to maintain a comfortable lifestyle in retirement.

2 Individuals earning over $250,000 are generally subject to 30% tax on contributions, being 15% deducted when the contribution is made to the super fund and another 15% payable on assessment after lodging their income tax return.

3 The non-concessional contributions cap is calculated at four times the level of the standard $25,000 annual concessional contributions cap. If you are under age 65, you can generally bring forward up to two years' worth of non-concessional contribution limits (subject to your 'total superannuation balance') into the year you're currently in. This means you can make a lump sum contribution of up to $300,000 in one year. This can be handy if you want to put in a large amount from an inheritance or sale of an investment property for example.

included in the personal non-concessional (after-tax) annual individual limit of $100,000[3].

If you have additional funds to invest after making concessional contributions you could make non-concessional (after-tax) contributions into your super or alternatively you can consider investing outside super. Speak to your financial adviser to find out more about what would be best for you.

> Your employer super payments may not be enough to meet your retirement goals.

Case study

Michelle, aged 45, is a teacher who earns a salary of $80,000 and receives 9.5% in superannuation guarantee contributions from her employer of $7,600 in the 2019/20 financial year. She currently saves around $11,000 a year and wants to start building up her super.

Michelle's financial adviser suggested she salary sacrifice $16,875 (within her concessional cap of $25,000 after including her employer's superannuation guarantee contribution of $7,600) instead of putting her $11,000 in super from her after-tax income.

How salary sacrificing works

	Without salary sacrifice	With salary sacrifice
Michelle earns (before tax)	$80,000	$80,000
Salary sacrifice contributions	$0	($16,875)
Income after salary sacrifice	$80,000	$63,125
Income tax and Medicare levy (ignores any low income tax offset)	($18,067)	($12,192)
Non-concessional contributions paid into superannuation	($11,000)	$0
Net salary	$50,933	$50,933
Income tax reduction	**$0**	**$5,875**
Extra gross super contributions	**$11,000**	**$16,875**
15% contributions tax	$0	($2,531)
Increase in super balance	$11,000	$14,344
Difference going into super	**$0**	**$3,344**

By salary sacrificing $16,875, Michelle is still taking home the same amount. However, she is better off salary sacrificing compared to putting her $11,000 after-tax savings into super. She's paying $5,875 less in income tax and she will be adding $3,344 more to her super each year.

This example is illustrative only and not an estimate of the tax savings you will receive. Please talk to your adviser about your individual circumstances.

Some important points to remember

- The amount you salary sacrifice is not subject to pay as you go (PAYG) withholding tax. The amount that you salary sacrifice will be reported in your payment summary and may affect entitlements for certain tax offsets and Government benefits.
- You'll only be taxed at your marginal tax rate on your reduced salary (that's your salary less your concessional contributions).
- Your salary sacrifice contribution will generally be taxed at the concessional rate of 15% when it is received by your super fund[2].
- Your salary sacrifice is not a fringe benefit and is not subject to fringe benefits tax.
- You generally cannot access any of your salary sacrifice contributions until you reach your preservation age[4].

How do I start to salary sacrifice?

Step 1	Check if your employer allows salary sacrificing and if it impacts your superannuation guarantee contributions.
Step 2	Calculate how much your superannuation guarantee contributions will add up to for the financial year.
Step 3	Think about how much you want to contribute from your future salary, future bonus or future leave entitlements.
Step 4	Talk to your financial adviser to make sure salary sacrifice is the right option for you.
Step 5	Put the agreement with your employer in writing.

Need more information?

To find out more about the tax advantages of salary sacrifice and whether it would be a good strategy for you, contact your financial adviser.

Visit **amp.com.au** or call **131 267**.

4 Your preservation age is usually between the ages of 55–60 depending on which year you were born. To access super, you will need to meet a condition of release, such as retirement, after reaching this age. Speak to your financial adviser or go to the ATO website for further details.

What you need to know

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