

Salary sacrifice

Salary sacrificing is where your employer agrees to pay an amount of money into your super from before-tax salary, instead of paying it to you in cash. It can save you tax, and help you add more to your super in a tax-effective way.

Who can salary sacrifice?

Anyone who has an agreement with their employer that allows salary sacrifice can do so. This includes most employees, and could be in the form of a workplace bargaining agreement or individual contract of employment. If you're unsure, check with payroll.

Why salary sacrifice?

Salary sacrifice reduces your taxable income, so you generally pay less tax than if you make the same super contribution after tax. Tax savings depend on how much you earn, and range from 0% for incomes less than \$6000 p.a. up to 46.5% if you earn \$180,001 p.a. or more. Any tax savings could be extra cash in your hand, or you could use them to add more to your super.

Making sure it's right for you

If you earn more than \$37,000 p.a. salary sacrifice will reduce your tax bill. Saving income tax is great, but there are some other things to consider when deciding to salary sacrifice.

Contributions tax of 15% applies

Salary sacrificed contributions are taxed at 15% on entry to super, meaning you will have less going into your account than if contributing the same amount after tax. You could redirect tax savings to super as additional salary sacrifice or after-tax contributions to boost your balance. In the Defined Benefits Fund, the 6% standard member contribution increases to 7.05882% when salary sacrificed to ensure 6% after contributions tax goes into the fund.

Don't miss out on the super co-contribution!

Salary sacrificed contributions do not qualify for the government co-contribution of up to \$1000 p.a. So, if your total income is less than \$61,920 p.a. and you meet other eligibility requirements, you may benefit from making after-tax contributions instead of, or in addition to, salary sacrificing. See our *Co-contribution info sheet* for more details.

Limits apply

In addition to any restrictions your employer may apply, the Australian Government caps before-tax contributions (all employer contributions, including salary sacrifice) to \$25,000 per year if you're under age 50. Up to 30 June 2012, a higher \$50,000 limit applies for those aged 50 plus. Proposed changes from 1 July 2012 will mean over 50s with less than \$500,000 in super will continue to have a \$50,000 limit, while those with \$500,000 or more will be capped at \$25,000 p.a. Exceeding these limits results in much higher tax rates and other drawbacks.

Tax free from age 60, but tax may apply before then

Salary sacrificed amounts may be taxed before age 60. After-tax contributions are tax-free.

How does it work?

These examples show the benefits of salary sacrifice and the co-contribution.

\$40,000 p.a. salary – permanent Queensland local government employee

This employee can put an extra \$400 p.a. into super, without reducing their take-home pay.

Current situation (after-tax)		Salary sacrifice and after-tax contributions	
Gross salary	40,000	Gross salary	40,000
- PAYG tax	6150	- 6% std member contribution	2400
- Voluntary salary sacrifice	0	Voluntary salary sacrifice	35
- 6% std member contribution	2400	- PAYG tax	5383
After-tax voluntary contribution	0	After-tax voluntary contribution	730
Government co-contribution	730	Government co-contribution	730
Take-home salary	31,450	Take-home salary	31,452
Amount added to super	3130	Amount added to super	3530

\$40,000 p.a. salary – employee not currently contributing to super

This employee can add an extra \$1795 p.a. to their super, while only reducing their take-home pay by \$1000 p.a., by combining salary sacrifice with after-tax voluntary contributions.

Current situation (after-tax)		Salary sacrifice and after-tax contributions	
Gross salary	40,000	Gross salary	40,000
- PAYG tax	6150	<i>Voluntary salary sacrifice</i>	<i>395</i>
- Voluntary salary sacrifice	0	- PAYG tax	6025
After-tax voluntary contribution	0	After-tax voluntary contribution	730
Government co-contribution	0	Government co-contribution	730
<i>Take-home salary</i>	<i>33,850</i>	<i>Take-home salary</i>	<i>32,850</i>
<i>Amount added to super</i>	<i>0</i>	<i>Amount added to super</i>	<i>1795</i>

\$70,000 p.a. salary – permanent Queensland local government employee

This permanent Queensland local government employee could receive the same take-home pay while putting \$1011 p.a. more into super. Their income is too high to receive the co-contribution, so there is no benefit to making after-tax contributions.

Current situation (after-tax)		Salary sacrifice	
Gross salary	70,000	Gross salary	70,000
- PAYG tax	15,600	- <i>6% std member contribution</i>	<i>4200</i>
Additional salary sacrifice	0	<i>Additional salary sacrifice</i>	<i>1931</i>
- <i>6% std member contribution</i>	<i>4200</i>	- PAYG tax	13,668
After-tax voluntary contribution	0	After-tax voluntary contribution	0
Government co-contribution	0	Government co-contribution	0
<i>Take-home salary</i>	<i>50,200</i>	<i>Take-home salary</i>	<i>50,200</i>
<i>Amount added to super</i>	<i>4200</i>	<i>Amount added to super</i>	<i>5211</i>

\$70,000 p.a. salary – employee not currently contributing to super

Using salary sacrifice, this employee can add an extra \$100 per week to their super, while only reducing their take-home pay by \$81 per week. Their income is too high to receive the co-contribution, so there is no benefit to making after-tax contributions.

Current situation		Salary sacrifice and after-tax contributions	
Gross salary	70,000	Gross salary	70,000
- PAYG tax	15,600	<i>Voluntary salary sacrifice</i>	<i>6118</i>
- Voluntary salary sacrifice	0	- PAYG tax	13,672
After-tax voluntary contribution	0	After-tax voluntary contribution	0
Government co-contribution	0	Government co-contribution	0
<i>Take-home salary</i>	<i>54,400</i>	<i>Take-home salary</i>	<i>50,209</i>
<i>Amount added to super</i>	<i>0</i>	<i>Amount added to super</i>	<i>5200</i>

The above examples are based on 2010/11 tax rates and co-contribution threshold. Amounts added to super are after contributions tax, with no tax on withdrawal.

Any questions?

LGsuper is here to help. Our Member Advice team can show you the impact salary sacrifice and after-tax contributions could have on your pay and super. Contact us on 1800 444 396.

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