

Salary sacrificing to save for retirement

For employees, salary sacrificing to superannuation can be a tax-effective way of saving for retirement.

Salary sacrificing involves an employee entering into an agreement with their employer, where the employer contributes part of the employee's salary into their superannuation without deducting the income tax they would otherwise have paid on this portion of their salary.

Some benefits

The amount an individual salary sacrifices to superannuation is generally taxed at 15%¹. This is likely lower than the marginal tax rate which applies to salary and other taxable income received personally.

For the 2019/20 financial year, this potential tax saving applies so long as the 'total concessional contributions' (which are compulsory superannuation guarantee contributions plus salary sacrifice contributions, plus any personal contributions which are claimed as a tax deduction) are less than \$25,000².

Some things to consider

Whilst most employers offer salary sacrifice to their employees, individuals should check with them first.

Questions to ask an employer before entering into a salary sacrifice agreement may include:

- From when the salary sacrificed amount is deducted from the pay, how long will it be before this amount is directed to the superannuation fund?

- How much notice must be provided to change or cancel the agreement?

Other considerations include:

- Eligibility to make a voluntary contribution to superannuation. Broadly, those people aged 18-65 are eligible, and those aged 65-75 are eligible if they satisfy the work test or the criteria to be exempt from the work test.
- Individuals won't be able to access amounts contributed to superannuation until they meet a condition of release. Generally this occurs upon the earlier of attaining age 65, or fully retiring after attaining preservation age³.
- Individuals can only sacrifice salary that they are yet to earn i.e. the salary sacrifice agreement can only apply to salary an individual will earn after the date of the agreement.
- The impact salary sacrifice may have on an individual's take home pay, and whether they can afford this reduction.

1 An additional 15% contributions tax applies to very high income earners, broadly those who earn more than \$250,000.

2 Those who have a total superannuation balance of less than \$500,000 as at 30 June 2019 are also able to contribute an amount equal to their unused concessional cap from 2018/19. This is in addition to the standard \$25,000 for 2019/20.

3 Preservation age: <https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?page=11>

Alternative to salary sacrifice

If an employer does not offer salary sacrifice, or imposes conditions that an employee considers unacceptable, an individual can achieve the same outcome by making a personal contribution to their superannuation and claiming a tax deduction. However, as personal contributions are made by an individual rather than their employer, it may be more difficult to manage from a cash flow perspective, and the benefit from the tax advantage only occurs once the tax return is completed for the financial year, rather than at each pay period under the salary sacrifice option.

Note:

- total concessional contributions also include any compulsory superannuation guarantee and salary sacrifice contributions, and
- timeframes for notifying a superannuation fund of an intention to claim a tax deduction, and reflecting this in tax returns for the relevant financial year.

Example

During the 2019/20 financial year, Alistair (aged 54) receives before tax salary of \$78,000. Currently, the only superannuation contributions he receives are the compulsory 9.5% superannuation guarantee of \$7,410 (\$78,000 x 9.5%).

The following table compares Alistair's current situation with an alternate scenario if he elects to salary sacrifice \$300 a fortnight, which equates to \$7,800 per year.

	Current	With \$300 per fortnight
Salary	\$78,000	\$78,000
Salary after salary sacrifice	\$78,000	\$70,200
Income tax (including Medicare)	\$17,377	\$14,686
Take home pay	\$60,623	\$55,514
Total concessional contributions	\$7,410	\$15,210
Contributions tax	\$1,112	\$2,282
Net (post tax) contributions to super	\$6,299	\$12,928
Total tax payable	\$18,489	\$16,968

For the 2019/20 financial year, by salary sacrificing \$300 per fortnight:

- Alistair's take home pay has reduced by \$5,109 (\$60,623 - \$55,514) or \$196.50 per fortnight,
- Alistair's total superannuation balance increases by \$6,629 (\$12,928 - \$6,299), and
- Alistair total tax liability reduces by \$1,521 (\$18,489 - \$16,968).

Alternatively, Alistair could achieve the same outcome by claiming a tax deduction for personal concessional contributions of \$300 pf. or \$7,800 as a single lump sum before 30 June 2019.

For more information, speak to a registered financial or tax adviser.

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