

Make the sacrifice for super

Salary sacrificing is a very tax-effective way to increase your super.

Salary sacrificing is the term used to describe the act of diverting pre-tax income into your superannuation account, expense payments or to pay for work related goods such as a laptop or car lease. For our purposes, we'll look at super.

By putting some of your pre-tax income into your super, you avoid paying tax on this money at your marginal rate. However it is taxed at 15% (contributions tax) which is lower than the marginal rate of those earning above \$35,000. It generally means more will be going into your super than if you tried contributing from your net (after-tax) income. And salary sacrificing has the effect of lowering your effective income and your overall tax burden.

Possible restrictions

You need to talk to your employer and have a written arrangement in place before you can start salary sacrificing. If you're employed, best do this at pay review time. Your employer may offer you the opportunity to salary sacrifice into superannuation. However, there is no legal requirement for them to do so at this time.

There are no legal limits to the amount that can be sacrificed but it must not breach an industrial award or workplace agreement.

However, employers will resist allowing salary sacrifice contributions of more than \$25,000 a year, (\$50,000 for people aged 50 and over until 2012) which includes your Superannuation Guarantee (SG) contributions (which are 9% of your salary or wages). Employers are liable for extra taxes of 15% on contributions above these limits and may ask you to pay this amount.

Some of the advantages and disadvantages of salary sacrificing are:

Advantages

- You can reduce your taxable income. Instead of paying tax on your income at your marginal tax rate, you are paying a maximum of 15% on contributions to your super.
- By reducing your taxable income, you may also become eligible for the Government Co-contribution.
- You are giving your super a boost and this will provide for a more comfortable lifestyle at retirement.

Disadvantages

- Contributions will be taxed within your super fund at 15%. Tax may be payable when you withdraw benefits from your fund.
- Salary sacrificing could reduce the amount of SG employer contributions to be paid by your employer. This needs to be clarified in your negotiations with your employer.

Your Personal Money Coach or Financial Adviser can advise if this is the right strategy for you and how much you should consider sacrificing.

Any questions? Call 1800 046 166 or visit: www.moneysolutions.com.au

Sacrificing your whole income

Many are so pleased with the savings from salary sacrificing, they want to know if they should salary sacrifice 100% of their salary. However this is not the most tax effective way to contribute to super.

The first \$6,000 you earn is tax-free. Along with the full Low Income Earners Tax Offset for those earning under \$30,000, the tax-free amount increases to \$15,000. This means there is no benefit in salary sacrificing your whole salary... in fact, as the example below shows, you will be paying more tax.

	Salary sacrifice whole income	Salary sacrifice to \$15,000
Gross income	\$30,000	\$30,000
Less salary sacrifice	\$30,000	\$15,000
Taxable income	\$0	\$15,000
Income tax + Medicare levy	\$0	\$0
Contributions tax (15%)	\$4,500	\$2,250
TOTAL TAX PAYABLE	\$4,500	\$2,250

If you salary sacrifice below \$35,000 then your tax bill will be almost the same, as the marginal tax rate is the same as contributions tax ie. 15%. You may save 1.5% in tax as you do not have to pay the Medicare levy, although individuals earning less than \$17,794 do not have to pay the Medicare levy either. For a family, the threshold is \$30,025 and increases by \$2,757 with each dependent child.

This means the benefit of salary sacrificing below \$35,000 is only marginal. In some cases, you may end up paying more tax, especially if you are eligible for other tax offsets such as the Mature Age Tax Offset and the Senior Australians Tax Offset. If anything, you should consider taking advantage of Co-contributions to add a little more to your super.

Generally, you are more likely to benefit from salary sacrificing most your income if:

- your effective marginal tax rate is over 15 per cent, or
- you have many sources of income such as salary, interest, dividends or rent.

Salary sacrificed contributions, as with most concessional contributions, are preserved and a condition of release must be satisfied before you can access your superannuation benefits.

Before you consider this type of contribution you should speak to your Personal Money Coach or see a Financial Adviser to consider whether it is right for your particular situation.

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