FACTSHEET

SALARY SACRIFICE

What is salary sacrifice?

Salary sacrifice is an arrangement between you and your employer where you agree to forego part of your before-tax pay in return for your employer making super contributions of the same value to your BUSS(Q) account.

The pay you 'sacrifice' is paid directly into your super fund before income tax is taken out. So, apart from the extra contributions going into your super, potentially, you could also pay less tax and increase your take home pay.

How does salary sacrifice work?

Salary sacrifice (before tax) contributions are, for the purpose of super, treated as employer contributions which means no income tax or fringe benefits tax is payable on these contributions. Salary sacrifice contributions are taxed at 15% when contributed to your super fund account. Therefore, if your personal marginal income tax is higher than this, salary sacrifice may be a tax-effective way to make superannuation contributions.

However, you need to be aware, that while the practise is rare, your employer could count your salary sacrifice contributions toward their 9% employer Superannuation Guarantee (SG) obligations or pay super on the new reduced salary.

Always take the time to negotiate a salary sacrifice package with your employer in writing, which specifies how much of your employment package is to be paid in super and how much in wages.

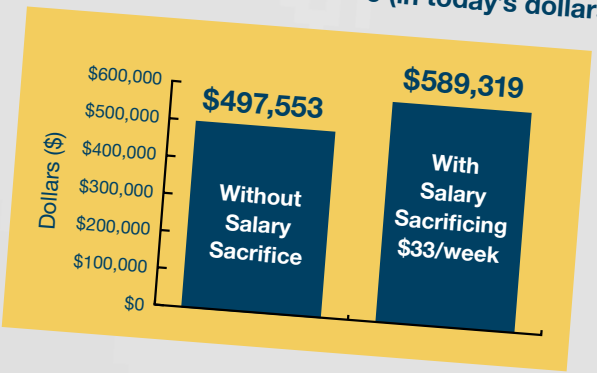
By contributing extra to your super on a regular basis through salary sacrifice, you can make a big difference to your super balance when you retire.

Let's look at the following example to see how salary sacrifice worked for John:

HOW JOHN BOOSTED HIS SUPER BY OVER $90,000!

John is aged 35 and has an annual salary of $65,000. He currently has $50,000 in his super account with BUSS(Q). He's thinking about salary sacrificing $33 a week from his before-tax pay. This reduced John's taxable income from $65,000 p.a. to $63,284 p.a. saving him $520 p.a. in income tax.

Projected Retirement Balance (in today's dollars)



For full assumptions see 'Important Information' →

Why should I salary sacrifice?

- You can reduce the tax you pay. Instead of paying tax on your income at your marginal tax rate, you are paying a maximum of 15% on contributions to your super.
- You are giving your super a boost that potentially will provide you with a more comfortable lifestyle at retirement.

Is there anything else I need to consider?

- A limit applies on how much you can contribute before tax to your super in any one financial year. If you go over this limit, you'll need to pay additional tax. Before-tax contributions include salary sacrifice contributions, personal tax-deductible contributions, as well as contributions made to your super direct from your employer. To make sure you don't exceed the limits and become liable to pay additional tax, you need to keep track of your super contributions.
  – if you're aged under 50 years, the limit is $25,000 per year
  – If you're aged over 50 years, the limit is $50,000 per year during the transitional period (until 30 June 2012)
- If your employer salary sacrifices more than your allowable limit for concessional contributions, you will personally have to pay additional tax of 31.5% on these contributions.
- Salary sacrificing could reduce the amount of SG (Superannuation Guarantee) employer contributions to be paid to you by your employer. This needs to be checked when you discuss salary sacrificing with your employer.
- Salary sacrificed income can no longer be used to reduce your total income for Government Co-contribution purposes. Salary sacrifice contributions also don't qualify for the Government co-contribution – only after-tax contributions qualify.
- Contributions will be taxed within your super fund at 15%. Tax may be payable when you withdraw benefits from your fund.

Interested? Next steps

STEP 1

Speak to an expert at no extra cost to find out if salary sacrifice is right for you

BUSS(Q) partners with financial planning experts, Money Solutions, to provide members with financial advice about their super at no extra cost. A Money Solutions financial adviser can advise you if salary sacrifice may be the right strategy for you and how much you should consider sacrificing. Simply call BUSS(Q) on **FREECALL 1800 657 216** and ask to speak with a financial adviser about your super over the phone or in person.

STEP 2

Speak to your employer

Ask your employer if they offer salary sacrifice into superannuation. Remember that they aren't legally obligated to do so. Also check if it will affect the employer contributions they make for you. Your employer will then be able to provide you with any paperwork you need to complete to start making salary sacrifice contributions.

IMPORTANT INFORMATION

Assumptions for case study: Results are shown in today's dollars; 2009/2010 tax rates; 9% SG employer contributions; 8.0% p.a. return on Balanced Growth investment option; $1.50/week administration fee; retirement age of 65; remember that investment returns cannot be guaranteed from year to year. Past performance does not necessarily provide an accurate indicator of future performance; 'present day dollars' is calculated by applying compound interest principles using 3% CPI; employer and member contributions have been increased by CPI each year; taxation of 15% has been applied to all employer contributions, before deduction of administration fees and insurance premiums; used default level of insurance cover for manual workers at $7.80/week.

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