

Salary sacrifice

What is salary sacrifice?

One way to save and invest for your retirement is by making salary sacrifice contributions to your superannuation. This strategy may allow investors to reduce their taxable income and build their retirement savings at the same time.

Salary sacrifice is an agreement between you and your employer to contribute some of your salary or bonus directly into your superannuation before tax is deducted at your marginal tax rate (which could be up to 46.5 per cent). You can only arrange to sacrifice income or a bonus payment before you have earned it.

Advantages of salary sacrifice

Making salary sacrifice contributions may be tax effective because they are taxed at 15 per cent which is lower than the highest rate of marginal tax of 46.5 per cent (including the Medicare levy). Furthermore, earnings within superannuation are taxed at 15 per cent, whereas earnings from non-superannuation investments are often taxed at your marginal tax rate. The table below illustrates how your marginal tax rate changes based on your income.

Taxable income	Marginal tax rate*
\$0 – \$18,200	Nil
\$18,201 – \$37,000	19%
\$37,001 – \$80,000	\$3,572 + 32.5%
\$80,001 – \$180,000	\$17,547 + 37%
\$180,001 and over	\$54,547 + 45%

* Excludes Medicare levy.

The contribution rules

Super contributions made from before-tax income are also known as concessional contributions. The Federal Government has imposed a concessional contributions cap, which limits the amount of superannuation contributions that can be made on your behalf before you incur tax penalties.

A limit of \$25,000 per person applies for the 2012/13 financial year regardless of age.

The table below summarises the tax payable on concessional contributions for the 2012/13 financial year.

Situation	Concessional contributions
Standard contribution	15% tax
If no TFN quoted	15% plus 31.5% tax on all contributions – deducted at 30 June each year or on leaving the Fund.
Contributions that exceed the concessional contribution (CC) caps of \$25,000 per annum	15% plus 31.5% tax imposed by the ATO and excess contributions count towards your non-concessional contribution (NCC) cap.

Proposed increase to concessional contribution caps for members aged 50 and over

From 1 July 2014, if you're aged 50 and over and have a super balance of less than \$500,000, the Government has proposed to introduce a higher concessional contribution cap of \$50,000.

Overall tax position

When considering a salary sacrifice arrangement, you should seek appropriate financial advice and consider your overall tax position, as super is taxed at various stages including when the benefit is paid if you are aged less than 60.

Salary sacrifice – how does it work?

Ronald is aged 45. He receives a salary of \$80,000 a year and is expecting a bonus of \$5,000. His employer pays the minimum rate of employer contribution under law.

On the advice of his financial adviser, Ronald negotiates with his employer to have his bonus paid directly into his super fund, rather than receiving the money as cash salary. The arrangement – which is documented and signed by both parties before the bonus is paid – will enable Ronald to invest an additional \$1,175 into his superannuation, as shown in the following table:

	Bonus as after-tax salary	Bonus as salary sacrifice
Before-tax bonus	\$5,000	\$5,000
Less income tax at 38.5%*	(\$1,925)	n.a.
Less contributions tax at 15%	n.a.	(\$750)
Net amount to invest	\$3,075	\$4,250
Additional amount to invest		\$1,175

* Includes a Medicare levy of 1.5%.

The rates of tax and thresholds are for the 2012-2013 tax year and are subject to change.

Please note: in the example above Ronald's contributions do not exceed the concessional cap for 2012/13, therefore no excess contributions tax is applicable.

Case study

Assuming Ronald retires in 20 years time, the graph below compares the value of his investment after tax is taken into account and based on certain assumptions outlined later in this section. As you can see, salary sacrificing his bonus of \$5,000 each year has provided Ronald with a better outcome than investing his bonus after-tax within or outside super.



Assumptions:
Bonus of \$5,000 before-tax or equivalent \$3,075 after tax is contributed at the end of each year until retirement age 65. Contributions not indexed. Moderate investment portfolio for super and non super money. Return for super 8.0% p.a. after fees and taxes, return for non-super 8.5% p.a. after fees and taxes, tax paid by investor not in the fund. Inflation 3.0% p.a. Salary growth 4.0% p.a. No administration fees. Contributions tax 15% p.a. Concessional contributions cap not exceeded. Franked income in the moderate portfolio: 23.1%. Income return: 3.6% and capital gain return: 4.9%. Non-super investment pays a distribution at the end of the year based on 3.6% income return, taxed at marginal rates and net amount re-invested at year end. Non-super investment assumed to be invested in products that do not attract the Government's proposed 50% discount in tax on interest earnings. At age 65, the non-super investment is redeemed and CGT is paid using the 50% rule. No lump sum tax on super at age 65. No Superannuation Guarantee contributions allowed for. Projections based on marginal tax rates and low income tax rebates announced in 2012 Federal budget including Medicare Levy and are assumed to continue for the years after 2012-2013. Medicare Levy Surcharge is not paid. Investment performance can go up and down and the assumptions used may vary. Figures are rounded to nearest \$1,000.

Where to from here?



In thinking about your next steps, you may want to consider:

If your employer will allow you to salary sacrifice

Contact your Payroll/Human Resources/Personnel Department (as applicable) if you wish to implement a retirement savings plan through salary sacrifice.

Whether to make a before or after-tax contribution

Whether you decide to make a contribution from before or after-tax income will depend on your circumstances and your income.

To find out more or learn about other available options, call a Member Services Consultant between 8.00am and 6.00pm, Melbourne Time any business day on **1300 55 7586** or take a look at the learning resources, tools and calculators available on the Plum website – plum.com.au



Did you know...

As a member of the Plum Superannuation Fund you can access the services of financial advisers through *Momentum Financial Advice*. This service provides general advice over the phone – at no cost to you, in addition to personal face-to-face advice if you require more in-depth advice about your personal financial circumstances.

If you would like more information about *Momentum Financial Advice* or would like to access this service, contact a Member Services Consultant on **1300 55 7586**.

Contact us for more information

If you would like further information, visit the *Member* section of the Plum website:



plum.com.au or



Speak with a Member Services Consultant on **1300 55 7586**.

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FINANCIAL ADVICE

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