



Salary sacrifice

What is salary sacrifice?

Salary sacrifice is an arrangement with your employer*, where you agree to receive part of your gross salary as a benefit rather than as salary. The value of this benefit is paid from your gross salary i.e. before tax. This means that your gross salary is reduced by the cost of the benefit before tax is calculated.

*Please note that your employer may have restrictions on the amount you can salary sacrifice and/or the frequency that you can change your election.

Tax savings with salary sacrifice

The most popular form of salary sacrifice is contributing an amount into super from your gross salary and there are a number of tax benefits in doing this.

Firstly, sacrificing some of your salary into super reduces your taxable salary. As a result, you may pay less tax.

Secondly, while no income tax is levied on the contribution amount sacrificed out of your salary, tax is levied on this amount when it enters the super fund. This tax rate is 15%, which may be lower than a person's marginal income tax rate.

NOTE: Since 1 July 2009, the concept of "income" in determining entitlement to certain Government benefits that are income tested has included 'salary sacrificed' contributions to superannuation.

Is salary sacrifice for you?

It is important to remember that salary sacrifice will reduce your 'take home' pay. However, depending on your level of income, salary sacrifice can be a very tax-effective way to contribute to your super.

Incentives for low and middle income earners and the availability of rebates in relation to 'spouse' contributions, though, means that salary sacrifice may not always be the most tax efficient method to contribute to super.

Further, there is a limit on the amount of before-tax contributions (called concessional contributions) that can be made in each year.

When salary is sacrificed into super, the contributions are preserved in the fund and you cannot access them until you satisfy a condition of release.

What's best for you will therefore depend on your particular circumstances. So carefully consider the information outlined in this fact sheet and seek advice before making any final decisions. You should get specialist financial planning advice before making any decisions to salary sacrifice into super.

To start this process off, what you can do first is consider your marginal tax rate, as this can be a significant factor in determining any potential tax savings through salary sacrifice.

We list the 2010/11 marginal tax rates below.

Consider your marginal tax rate

The table below shows the marginal tax rates applying at different levels of income (e.g. salary and wages) for the 2010/11 financial year.

Income level 2010/11	Tax rate*
Below \$6,000	0%
Between \$6,001 and \$37,000	15%
Between \$37,001 and \$80,000	30%
Between \$80,001 and \$180,000	37%
\$180,001+	45%

* The Medicare levy of 1.5% is usually payable in addition to the above tax rates.

Put simply, anyone with taxable income over \$37,000 can obtain an immediate tax saving through 'sacrificing' part of their salary and contributing that amount into super - because their marginal tax rate (see table above) is higher than the 15% tax on super contributions.

However, there could be some tax considerations if you plan to access your super before you reach the age of 60 and this is



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discussed in some detail in the next section 'Taxes on your super'.

Someone earning less than \$37,000 could also benefit due to Medicare levy savings because the Medicare levy is not paid on any salary sacrificed contributions to super.

Taxes on your super

Contributions tax

There is a 15% tax on certain contributions as they are paid into super. All employer contributions (including salary sacrifice contributions) attract this tax. Contributions deducted from your salary *after* tax (i.e. not salary sacrificed) do not attract this tax because you have already paid income tax on them. These types of after-tax contributions are referred to as either personal contributions or non-concessional contributions.

Less tax on investment earnings in super

One of the big attractions of investing money into super is that your investment earnings are taxed at a maximum rate of 15%, which is lower than personal tax rates for incomes over \$37,000.

Investment returns to our members are reflected at after-tax rates and after allowing for all of the allowable tax concessions relevant to superannuation investments.

Withdrawing your super

Most people cannot access their super until retirement after age 55 (if you were born prior to 1 July 1960), increasing to age 60 (if you were born after 30 June 1964).

After age 60, super withdrawals are tax-free. For people under 60 there will be two components of a super benefit - an exempt and a taxable component. Only the part of the taxable component in excess of the tax-free limit* will be taxable. If you are aged 55-59, this rate is 15%; if you are under 55 it is 20%. These tax rates do not include the Medicare Levy which will also be payable.

It is important that you seek financial planning advice before accessing your super.

* For 2010/11 this limit is \$160,000 and is indexed.

Super salary sacrifice example

Consider the difference if you make salary sacrifice contributions, as opposed to making after-tax contributions.

Take your time when reviewing this ready reckoner and if you have any questions call Member Services for assistance. Remember to take into account your own marginal tax rate.

Super salary sacrifice ready reckoner			
So, you want to contribute an extra \$100 per week to your super. Here's how it could work if your marginal tax rate* is:	30%	37%	45%
To invest \$100 after tax into your super, it would actually cost you this much:	\$142.86	\$161.29	\$181.82
Because this is the amount of tax at your normal marginal rate that you would have to pay:	\$42.86	\$61.29	\$81.82
Which would give you \$100 after tax into your super account:	\$100.00	\$100.00	\$100.00
But if you made the same contribution with before tax money via salary sacrifice:	\$142.86	\$161.29	\$181.82
You'd only be taxed at 15%:	(\$21.43)	(\$24.19)	(\$27.27)
Making a total contribution to super of:	\$121.43	\$137.10	\$154.55
The extra amount going into your super account each week (compared to the after-tax \$100 contribution) is:	\$21.43	\$37.10	\$54.55
Which translates annually into:	\$1,114.36	\$1,929.20	\$2,836.60



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Let's consider two examples using the ready reckoner from the previous page...

Jenny

Jenny is a member of the Retirement Scheme, but has been contributing an additional \$100 a week as a 'top-up' contribution for some time. Jenny earns \$45,000 p.a., which puts her in the 30% marginal tax bracket.

When Jenny realised she could change this contribution and make some of it by salary sacrifice, she was not sure if it was worth the fuss. In fact, she thought that after the 'contributions' tax it wasn't worth it.

However, it is definitely worth it. When looking at her \$100 contribution, Jenny has had to earn \$142.86 (see table on previous page at the 30% marginal tax rate) before tax to have the \$100 left after tax.

If Jenny contributes the entire \$142.86 (equivalent to her \$100 after tax) from her gross pay instead, two things happen:

- Her after-tax pay doesn't change because it is the same as \$100 from her after-tax pay.
- Even more goes into her super.

Even after the tax on the contribution, the amount going into Jenny's super is \$121.43, which is \$21.43 more than if she kept contributing \$100 after tax. More importantly, it hasn't cost Jenny another cent to increase her super savings by just over \$20 a week.

Super salary sacrifice ready reckoner - Jenny		
Jenny's marginal tax rate* is:	30%	
	Weekly	Yearly
Previously, she made \$100 in after-tax contributions to super each week, giving her:	\$100.00	\$5,200.00
She had already paid tax on that \$100 of:	\$42.86	\$2,228.72
So, to put \$100 into her super, it has actually cost her:	\$142.86	\$7,428.72
But if Jenny contributed the entire before-tax amount to her super via salary sacrifice:	\$142.86	\$7,428.72
She would only be taxed at 15%:	(\$21.43)	(\$1,114.36)
Making her new total contribution:	\$121.43	\$6,314.36
The extra benefit to Jenny's super is:	\$21.43	\$1,114.36

* Ignores Medicare levy.



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Dave

Dave is five years from retirement. After talking to his financial planner, Dave realises he needs to invest more into his super.

As the kids and the mortgage have gone, Dave works out he can afford to put \$200 extra per week into his super from his salary of \$60,000. Dave considers contributing this amount from his net pay (after-tax), which means the \$200 a week would come to a total of \$10,400 for the year.

Dave's financial planner, however, suggests that he should contribute the money by salary sacrifice, rather than from his after-tax pay, as he will end up with a larger amount put away each year for his retirement.

Let's look at why Dave will be able to invest more in his super using salary sacrifice.

Firstly, Dave's financial planner recommends that he should 'gross up' the \$200 a week contribution. In other words, as he is making the contribution with before-tax dollars, he should use that tax saving to contribute more towards his super. It will make no difference to the amount of money he is taking out of his weekly pay (he will be minus \$200 a week with either option), but it will mean more money goes into his super account due to the tax savings.

On his salary, Dave's marginal tax rate is 30%. That means (refer to table on page 2) he can make a 'before-tax equivalent' contribution of \$285.72 (\$142.86 for \$100 = \$285.72 for \$200). Allowing for 15% tax on the contribution, Dave still has \$242.86 (\$285.72 less 15% tax) going into his super each week or \$42.86 extra invested each week.

The table opposite takes you through the process.

Super salary sacrifice ready reckoner - Dave

Dave's marginal tax rate* is:	30%	
	Weekly	Yearly
If Dave had made \$200.00 in after-tax contributions to super each week, it would give him:	\$200.00	\$10,400.00
He would have already paid tax on that \$200.00 of:	\$85.72	\$4,457.44
So to put \$200.00 into his super, it would have actually cost him:	\$285.72	\$14,857.44
But if Dave contributed the entire before-tax amount to his super via salary sacrifice:	\$285.72	\$14,857.44
He would only be taxed at 15%:	(\$42.86)	(\$2,228.62)
Making his new total contribution:	\$242.86	\$12,628.72
The extra benefit to Dave's super is:	\$42.86	\$2,228.72

* Ignores Medicare levy.

Need further information?

If you would like more information regarding your salary sacrificing options or the address of your local branch, you can contact Member Services on 1300 369 901 between 8.30am and 5pm on any business day.

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