EISS Super

Salary Sacrifice Contributions to Super

Salary sacrificing additional contributions to your super can be an effective method of boosting your super while potentially reducing your tax along the way.

What are salary sacrifice contributions?

A salary sacrifice contribution is where you make an arrangement with your employer to make additional contributions to your super before tax instead of paying this to you as ordinary income. These pre-tax contributions also reduce your taxable income so you may also end up paying less income tax.

What are the benefits?

Boost your retirement savings

Putting more money into super now may provide you with greater savings for your retirement. Even small amounts can really make a difference over time.

Save on tax

Super is a tax-effective way to invest and save for your retirement and can reduce your taxable income which may reduce the amount of income tax you pay. Investment earnings in super are generally taxed at a lower rate than outside of super; and after age 60, you generally don't pay any tax when withdrawing your super.

Salary sacrifice contributions are taxed at 15%.[1] If instead you receive the money as normal income, it will be taxed at your marginal tax rate which, depending on your taxable income, can be as high as 47% (including the Medicare levy).

Things to consider

Salary sacrifice can be an effective way of boosting your super. However, you need to consider whether it's appropriate for your own situation.

If your income tax rate is below 15% (i.e. a lower income earner), salary sacrifice may not give you an advantage.

Super treatment of salary sacrifice

Money that is salary sacrificed into super is classified as a concessional (pre-tax) contribution and treated accordingly. This money has to remain in the super environment until a condition of release is met, such as retirement.

Concessional contributions cap

Salary sacrifice contributions together with the super paid by your employer (i.e. Superannuation Guarantee (SG) and award contributions) are classified as concessional contributions.

There is an annual cap (i.e. the maximum amount you can contribute in one financial year) of $25,000 for concessional contributions.

Contributions exceeding this cap will be taxed at your marginal tax rate (with a 15% tax offset applied) and attract an excess concessional contributions charge. You also have the option to release 85% of your excess contributions from your super fund to help pay the tax debt.

Unused concessional cap carry forward

You may be able to increase your concessional contributions in a financial year by applying previously unused concessional contributions cap amounts. The following rules apply:

- you can start accruing unused concessional cap amounts from 1 July 2018;
- you can carry forward unused cap amounts if your total super balance was less than $500,000 on 30 June of the previous financial year; and
- you can carry forward unused cap amounts for up to five financial years.

Take-home pay

Sacrificing some of your salary into super will reduce your take-home pay and you need to consider if you can afford this.

Compulsory employer contributions

Salary sacrifice contributions may reduce your salary for employer contribution (SG) purposes. You should check this with your employer.

1 30% for high income earners where your concessional contributions, taxable income and reportable fringe benefits exceeds $250,000 (known as Division 293 tax).

Centrelink benefits and means testing

While salary sacrifice reduces your taxable income, it does not reduce your income for means testing for certain government payments.

How to set up a salary sacrifice arrangement

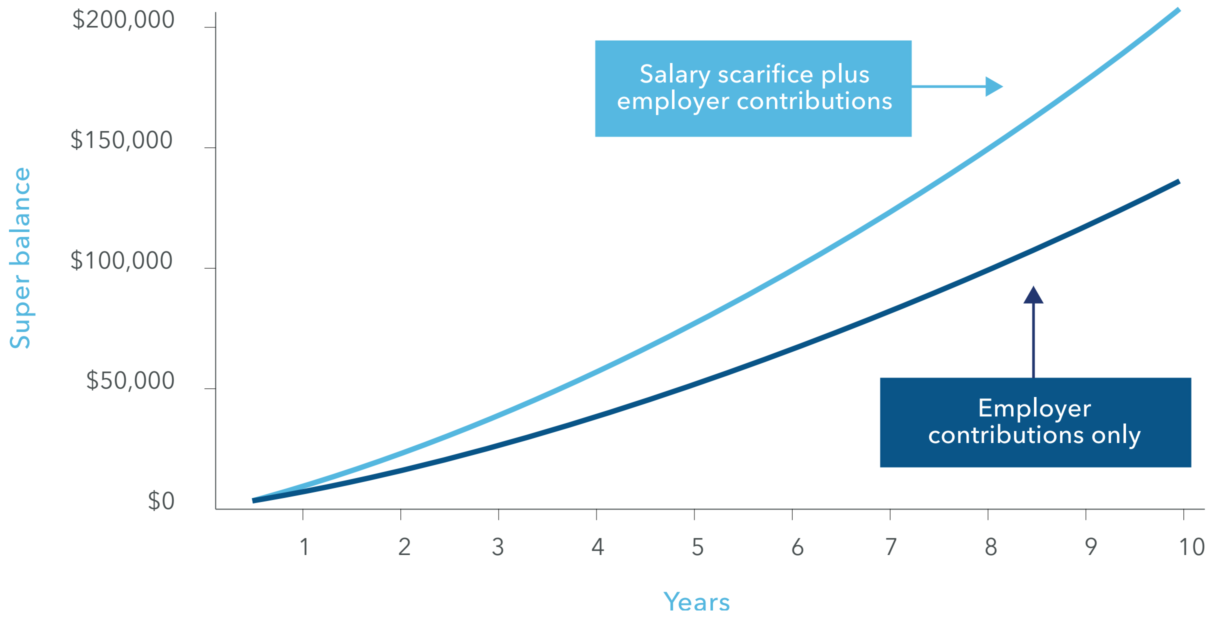
A salary sacrifice arrangement must be discussed and agreed with your employer. Please note, it is not compulsory for your employer to offer a salary sacrifice arrangement.

The arrangement must apply to future income and cannot apply to income that you have already earned.

An extra $71,400 in Mike's super!

Mike is an EISS Super member who earns $90,000 p.a. Mike wants to understand the impact salary sacrificing $5,000 p.a. ($96 weekly) will have on his super.

- Mike's annual taxable income is reduced from $90,000 to $85,000 saving him $1,725 p.a. in income tax.
- In ten years Mike will have an extra $71,431 in his EISS Super account.
- Mike can now afford to buy the boat in retirement that he has been dreaming of!



Assumptions: Starting salary of $90,000 p.a., increasing each year with inflation. Superannuation guarantee contributions (SG) of 9.5% of salary, increasing in accordance with current legislation and subject to 15% contributions tax. Salary Sacrifice contributions of $5,000 p.a. and subject to 15% contributions tax. Net investment earnings 6% p.a. Inflation 2.5% p.a. All contributions are made at the end of each financial year.
Disclaimer: This projection is for illustrative purposes only and is not guaranteed in anyway. Actual performance will depend on future taxation and economic conditions. Past performance should not be relied upon as an indicator of future performance.
Source: EISS Financial Planning.

Seek professional advice

Our financial planners provide advice over the phone, at our offices or at a location near you.

To book an appointment, please call **1300 369 901** or visit **eisuper.com.au/appointment**.

We're here to help

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