

# Salary sacrifice

## What is salary sacrifice?

Salary sacrifice is an arrangement between an employer and an employee whereby the employee, with the prior approval of the employer, sacrifices some of their future salary in exchange for a benefit of an equal value.

A popular salary sacrifice arrangement is contributions to super.

## Why salary sacrifice to super?

There are two main reasons that might prompt you to salary sacrifice to your super fund.

**Firstly**, to help grow your retirement savings. Super is the cornerstone of retirement savings for the majority of Australians. Most people recognise that with an aging population there is increasing pressure on us to fund our own retirements. In addition, the power of compound interest can mean that over time, regular savings into super could have a major impact on your retirement benefit.

**Secondly**, by diverting income from your (pre-tax) salary into super, you could reduce the amount of tax that you pay, and at the same time you are investing in a tax-effective environment. However, you need to keep in mind that any amounts which you salary sacrifice into super are generally not accessible to you until you retire – they are essentially “locked away” or “preserved” until retirement.

It is strongly recommended that you seek advice from a licensed, or appropriately authorised, financial adviser before making any decision to salary sacrifice.

## Tax efficiencies now

By salary sacrificing into super, you may be able to benefit from an immediate tax saving depending on your marginal tax rate. By salary sacrificing into super, your contributions are taxed at 15%, as opposed to your marginal rate of tax (which would apply if you took the salary as income).

Your contribution (less contributions tax) is then invested in super and compounds over time, meaning that you are likely to end up with a higher end benefit than if you hadn't contributed. Of course you need to take into consideration whether you will need to pay more tax if and when you are eligible to take some money out of super.

Because of this, for individuals on marginal tax rates above 15%, salary sacrifice may result in significant up-front tax savings.

## Tax efficiencies while your money is in super

Unlike investments held outside of super, you do not have to declare the earnings of your super fund in your personal income tax return each year.

Your super fund reports investment earnings on your super account and is taxed internally at a maximum of 15% on income. This generally compares favourably to the tax that would apply to your investments outside of super.

## Tax efficiencies at retirement

There are further tax gains and savings to be made once you have reached your preservation age and retired.

Essentially, there are three ways to access your super benefits:

1. As a lump sum cash payment,
2. As a pension, or
3. As a combination of the above.

### If you're aged 60 years or above

Individuals aged 60 years and over opting to take their super benefit as a lump sum, as a pension from a taxed source, or as a combination of the two, can take their benefit tax-free.

These individuals are not required to include their super benefits in their tax return.

### If you're between preservation age and 59

Individuals under 60 may also take their benefits as a lump sum, pension or a combination of the above. These benefits will, however, be subject to tax.

## A licensed financial adviser can help you

There is a lot of things to consider when making a decision about salary sacrificing into super.

It's important to understand that in some cases, it may not be the most appropriate strategy for you – remember, all money invested in super is effectively 'locked away' (or preserved), generally until retirement age.

In addition, the Government has put some restrictions on how much you can contribute to super at the concessional tax rates.

A financial adviser will take into account your short-, medium-, and long-term financial goals and your lifestyle needs before recommending appropriate strategies for you. Super may be only one part of these strategies.

### Let's recap

So, to summarise:

**Firstly**, salary sacrifice is a tax strategy which can be used to contribute pre-tax salary into super.

**Secondly**, super continues to be a tax-effective way for most people to save for retirement and can provide tax-effective income in retirement.

**Finally**, salary sacrifice isn't suitable for everyone and you should seek professional financial planning and tax advice before making any changes to your salary package.

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