



## Salary sacrifice

Salary sacrifice is an arrangement where you give up part of your pre-tax salary in return for a non-cash employment benefit. An example of this is where you give up pre tax salary and your employer passes the pre-tax funds to your super account.

If you wish to make salary sacrifice contributions to super there must be a formal agreement in place between you and your employer. This agreement must set out what amount of your salary you wish to sacrifice, and should also state whether the amount includes your employer's Super Guarantee (SG) requirement or if this is additional to the salary sacrifice amount.

Salary sacrificed contributions to super are different from member or personal contributions.

Salary sacrifice payments to super are paid before PAYG tax is deducted whereas member contributions or personal contributions are paid from salary after PAYG tax is deducted. Salary sacrifice contributions are treated as employer contributions in the hands of the super fund and a flat tax of 15% is applied to these contributions.

The contributions tax of 15% is clearly quite different to the various marginal tax rates of 15%, 30%, 40% and 45% that can apply to income.

This is the key to salary sacrifice, where you divert part of your salary to super and only incur the 15% super contribution tax as opposed to the alternative of paying the marginal tax rates and then investing or putting the funds into super with after-tax money.

### After-tax savings to super or invest elsewhere:

Salary Range	\$6,001–\$34,000	\$34,001–\$80,000	\$80,001–\$180,000	>\$180,000
Marginal Tax Rate	15%	30%	40%	45%
Amount invested or contributed	\$100	\$100	\$100	\$100
PAYG tax	\$15	\$30	\$40	\$45
<b>Net Funds to Invest</b>	<b>\$85</b>	<b>\$70</b>	<b>\$60</b>	<b>\$55</b>

### Before-tax savings to super (salary sacrifice):

Salary Range	\$6,001–\$34,000	\$34,001–\$80,000	\$80,001–\$180,000	>\$180,000
Super contribution tax rate	15%	15%	15%	15%
Amount invested or contributed	\$100	\$100	\$100	\$100
Contribution tax	\$15	\$15	\$15	\$15
<b>Net Funds to Invest</b>	<b>\$85</b>	<b>\$85</b>	<b>\$85</b>	<b>\$85</b>

Using the tax rates for 2008/2009, for every \$100 invested into super via salary sacrifice a net \$85 is invested. For the majority of wage earners paying tax at 30% on \$100, leaving \$70 available to invest is not as attractive as having \$85 to invest via salary sacrifice. Sure, the funds are locked away in super, but the financial incentive is clear.

If you'd like to get a quick snapshot of how salary sacrificing will benefit you, use Vision Super's salary sacrifice calculator at [www.visionsuper.com.au](http://www.visionsuper.com.au). Otherwise, check out the three case studies to see the benefits.

Salary sacrifice contributions are classified as employer contributions.

Members should also be aware that superannuation contributions are preserved until retirement or condition of release is met. If you are over 60 yrs of age all benefits are tax-free when taken from a taxed fund like Vision Super.

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### Case Study 1: Defined Benefit Members

In the first table on the right, we examine members on a package of \$80,000 p.a. Currently, the Defined Benefit member elects to invest 6% of the compulsory contribution to super with after-tax money. However, if they salary sacrifice \$7,600 of their pre-tax salary instead of contributing after-tax, the net cash in hand is \$55,594, and they have increased their super contribution by \$1,660, compared to if they had only made the after-tax contribution.

Higher income members	No Salary Sacrifice	Salary Sacrifice
Gross salary:	\$80,000	\$80,000
Less salary sacrifice for Defined Benefit:	\$0	\$7,600
Taxable salary:	\$80,000	\$72,400
Less Tax (PAYG):	\$18,000	\$15,720
Less Medicare Levy:	\$1,200	\$1,086
Net pay (after tax salary p.a.)	\$60,800	\$55,594
Less super contributions (after tax):	\$4,800	\$0
<b>Net cash in hand:</b>	<b>\$56,000</b>	<b>\$55,594</b>
Government Co-contribution: #	\$0	\$0
<b>Net increase to super p.a.*</b>	<b>\$4,800</b>	<b>\$6,460</b>

In this case we have a Defined Benefit member who earns \$35,000 p.a. and does not salary sacrifice but instead contributes the compulsory 6% member super contribution with after tax money. As you can see after paying PAYG tax and Medicare on salary of \$35,000 p.a. the member has \$29,875 p.a. However, after the compulsory 6% (\$2,100) is deducted they only have \$27,975 p.a. available to spend. In this case the \$2,100 forms part of the eligible after tax contribution that enables the member to receive the Government Co-contribution of \$1,267.

Low – moderate income members	No Salary Sacrifice	Salary Sacrifice
Gross salary p.a.:	\$35,000	\$35,000
Less salary sacrifice for Defined Benefit:	\$0	\$1,853
Taxable salary:	\$35,000	\$33,147
Less Tax (PAYG):	\$4,500	\$4,072
Less Medicare Levy:	\$525	\$497
Net pay (after tax salary p.a.):	\$29,975	\$28,578
Less super contribution (after tax):	\$2,100	\$1,000
<b>Net cash in hand:</b>	<b>\$27,875<sup>1</sup></b>	<b>\$27,578<sup>1</sup></b>
Government Co-contribution: #	\$1,267 <sup>1</sup>	\$1,360 <sup>1</sup>
<b>Net increase to super p.a.*</b>	<b>\$3,367<sup>1</sup></b>	<b>\$3,935<sup>1</sup></b>

# Assumes no other income received by member thus assessable income equals taxable income.

\* Net contribution amount after 15% contribution tax has been deducted from salary sacrifice contribution.

<sup>1</sup> Based on new co-contribution thresholds from 1 July 2008.

After learning about salary sacrifice the Defined Benefit member decides that they want to have around the same take home pay (\$27,975 p.a.) and improve their situation by using a combination of salary sacrifice to super and after tax contributions to super. In this case, \$1,853 is salary sacrificed and \$1,000 is put in after tax so that they can reduce PAYG tax and remain eligible for the Government Co-contribution.

In this case the member is adding an extra \$568 p.a. to super, compared to making only after-tax contributions.

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### Case Study 2: Accumulation Members

For an accumulation member (e.g. Super Saver, Personal plan, etc.) who currently contributes 6% to the their account with after-tax money, the yearly take home pay is \$60,800 p.a. However, if this member was to salary sacrifice contributions they can improve their situation even further. As you can see, while maintaining the same take home pay the member can divert \$7,600 (9.5%) to super via salary sacrifice, and end up with an extra \$1,660 p.a. contribution to super, compared to if they had only made after-tax contributions.

Higher income members	No Salary Sacrifice	Salary Sacrifice
Gross salary p.a.:	\$80,000	\$80,000
Less salary sacrifice for Super Saver:	\$0	\$7,600
Taxable salary:	\$80,000	\$72,400
Less Tax (PAYG):	\$18,000	\$15,720
Less Medicare Levy:	\$1,200	\$1,086
Net pay (after tax salary p.a.):	\$60,800	\$55,594
Less super contribution (after tax):	\$4,800	\$0
<b>Net cash in hand:</b>	<b>\$56,000</b>	<b>\$55,594</b>
Government Co-contribution: #	\$0	\$0
<b>Net increase to super p.a.*</b>	<b>\$4,800</b>	<b>\$6,460</b>

A member who earns \$35,000 p.a. and contributes 6% of salary with after tax money and takes home \$29,975 p.a. In this case, the member contributes \$2,100 in super and also receives the Government co-contribution of \$1,267. However, if this member was to use a combination of salary sacrifice and after tax contributions they can improve their situation further. In this case, we suggested \$2,059 as salary sacrifice and \$1,000 after tax to super. This results in an increase of \$753 p.a. to super, compared to just making an after-tax contribution.

Low – moderate income members	No Salary Sacrifice	Salary Sacrifice
Gross salary p.a.:	\$35,000	\$35,000
Less salary sacrifice for Super Saver:	\$0	\$2,059
Taxable salary:	\$35,000	\$32,941
Less Tax (PAYG):	\$4,500	\$4,041
Less Medicare Levy:	\$525	\$494
Net pay (after tax salary p.a.):	\$29,975	\$28,406
Less super contribution (after tax):	\$2,100	\$1,000
<b>Net cash in hand:</b>	<b>\$27,875</b>	<b>\$27,406</b>
Government Co-contribution:#	\$1,267	\$1,370
<b>Net increase to super p.a.*</b>	<b>\$3,367</b>	<b>\$4,120</b>

# Assumes no other income received by member thus assessable income equals taxable income.

\* Net contribution amount after 15% contribution tax has been deducted from salary sacrifice contribution.

### Summary

As you can see, diverting part of your salary to super using salary sacrifice can have small or large benefits depending on your level of income. Salary sacrifice may generally favour higher income earners but can also be used by many lower income earners to save PAYG tax and obtain a higher Government co-contribution (please see Fact Sheet 2: Co-contributions).



**We can help!**

If you would like further information about salary sacrifice, or any of our products and services, please call our Member Services team on 9911 3222 (1300 300 820 for regional members).

[www.visionsuper.com.au](http://www.visionsuper.com.au)

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