

Salary Sacrificing to Super



Why salary sacrifice to super?

Salary sacrificing into super boosts retirement savings in a tax-effective manner. This is because salary sacrifice contributions to super are taxed at a maximum rate of 15%. You benefit if your marginal tax rate is more than 15%, and this applies to most people.

Changes to superannuation from 1 July 2007 which have removed the tax after age 60 and removed the reasonable benefit limits (RBLs), have made superannuation an even more attractive retirement savings vehicle than before.

The changes have shifted the tax-planning focus from last minute pre-retirement strategies to concentrating on making sufficient funds during your working life.

To take advantage of these changes, and to ensure you have sufficient income in retirement, you should begin contributing as much as you can, as early as possible and whenever possible use salary sacrificing arrangements to boost your super balances before retirement.

How does it work?

To arrange a salary sacrifice strategy talk to:

- your financial adviser about how much you should salary sacrifice, and
- your employer about arranging the amount and the period.

To be regarded as an effective salary sacrifice arrangement, only salary or wages including bonuses relating to future earnings can be sacrificed. You should sign an agreement with your employer before entering into the arrangement.

Case study

Jane is 45 years of age and receives \$55,000 pa as a sales manager for a manufacturing company. After talking to her financial adviser, Jane negotiates with her employer to have any potential bonuses contributed to her super on a pre-tax basis. Jane has performed well in her job and is expecting to get a \$10,000 bonus. As shown in the next table, the arrangement will allow Jane to save \$1,650!

Bonus	Taken as salary	Salary sacrificed
Pre-tax bonus	\$10,000	\$10,000
Less income tax at 31.5%	-\$3,150	n/a
Less 15% contributions tax n/a	n/a	-\$1,500
Net amount to invest	\$6,850	\$8,500
Jane's tax saving		\$1,650

Assumes tax rates for the 2008/09 financial year. Includes the Medicare Levy of 1.5%.

What about the ongoings? - How does super compare with investing outside of super?

You can't salary sacrifice into any other type of investment or savings scheme, so to invest outside of super you would need to begin with after-tax dollars, where income tax has already been taken out at your marginal rate. Once you invest, income earned on the asset is also taxed at your marginal rate. Then when the asset is disposed of, capital gains tax (CGT) applies, also at your marginal rate.

Within a super fund, income is taxed at 15% and capital gains (where an investment is held for more than 12 months) are taxed at 10%.

There is one trade-off for the superannuation investor for this favourable tax treatment, and that is you generally can't access your superannuation until retirement.

Tips and Traps

- If your assessable income plus reportable fringe benefits is less than \$60,342 pa you may also want to make an undeducted (after-tax) super contribution to qualify for a Government co-contribution.
- Salary sacrifice contributions must be preserved until permanent retirement after reaching your preservation age (unless another condition of release is satisfied).
- Salary sacrificing could result in a reduction in other benefits such as leave loading and holiday pay as these benefits are often calculated using your base salary.
- Salary sacrifice contributions to super are classed as employer contributions and count towards the concessional contributions cap. From 1 July 2009, the concessional contributions cap is \$25,000 (unless transitional rules apply), and all superannuation guarantee contributions, salary sacrifice contributions, and any personal deductible contributions will be included under this cap.

Source: MLC - Grow your super tax-effectively

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