

Salary sacrifice is often a tax-effective way of making extra contributions to your super.

## How does it work?

Superannuation salary sacrifice is an arrangement where you give up, or sacrifice, part of your pre-tax salary and your employer then passes these pre-tax funds to your super account. To participate in this arrangement you must have a formal agreement in place between you and your employer.

- your salary sacrifice contributions to your super fund are treated as employer contributions and a flat contribution tax of 15% is applied.
- all superannuation contributions including salary sacrifice contributions are preserved until retirement or a condition of release is met.

## What are the benefits?

By salary sacrificing, you may be able to reduce the total tax you pay and increase your total combined take-home pay and super contributions.

The part of your salary that you sacrifice to your super only incurs the 15% super contribution tax (under the contribution limits set) as opposed to the alternative of paying the higher marginal tax rate that may otherwise apply on the same money.

## What are the limits?

For the 2009/10 financial year, concessional contribution limits are capped at \$25,000p.a. for those under 50 and \$50,000p.a. for those 50 and over. Although you can contribute above these limits, they will be subject to excess contributions tax of 31.5% on top of the 15% already applied.

## Examples

### Salary sacrifice (before-tax) contributions compared with after-tax contributions.

**Example 1:** The member's total taxable income is \$60,000p.a.

In this example a member makes a \$5,000 contribution to their superannuation fund from after-tax income and makes the same \$5,000 contribution by salary sacrifice.

Example 1	After Tax Contributions	Before Tax Contributions
Gross salary	\$60,000	\$60,000
Less income tax*	-\$11,850	
Less salary sacrifice (concessional contribution)		-\$5,000
Adjusted gross salary		\$55,000
Net salary	\$48,150	
Less income tax*		-\$10,350
Less non-concessional contribution (after tax)	-\$5,000	
<b>Net salary after tax and super contribution</b>	<b>\$43,150</b>	<b>\$44,650</b>

\* (Does not include Medicare levy) Using 2009/10 individual Tax rates



You will need to consider your own individual financial and personal circumstances to determine whether salary sacrifice contributions are right for you. You may wish to seek advice from a licensed or authorised financial adviser.

**After-tax contributions:** The member pays income tax on \$60,000 salary and then contributes \$5,000 to superannuation. The member pays \$1,500 more in income tax but the super contribution, unlike a salary sacrifice contribution, is not taxed in the fund. The member will have a net super contribution of \$5,000.

**Salary sacrifice:** The member chooses to salary sacrifice \$5,000 straight into super, so they will only pay income tax on \$55,000 (not \$60,000). This means their income tax will be reduced. This example of Salary Sacrifice results in a \$1,500 increase in after-tax salary. However, the member's salary sacrifice contributions are taxed at 15% when paid into a super fund, so they will have a net super contribution of \$4,250 rather than the \$5,000 sacrificed to their super.

**In this example the member, in aggregate terms, is \$750p.a. better off.**

**Example 2:** The member's total taxable income is \$30,000p.a.

In this example a member also makes a \$5,000 contribution to their superannuation fund from after-tax income and makes the same \$5,000 contribution by salary sacrifice.

Example 2	After Tax Contributions	Before Tax Contributions
Gross salary	\$30,000	\$30,000
Less income tax*	-\$3,600	
Less salary sacrifice (concessional contribution)		-\$5,000
Adjusted gross salary		\$25,000
Net salary	\$26,400	
Less income tax*		-\$2,850
Less non-concessional contribution (after tax)	-\$5,000	
<b>Net salary after tax and super contribution</b>	<b>\$21,400</b>	<b>\$22,150</b>

\* (Does not include Medicare levy) Using 2009/10 individual Tax rates

**After-tax contributions:** The member pays income tax on \$30,000 salary and then contributes \$5,000 to superannuation. So the member pays \$750 more in income tax but the super contribution, unlike a salary sacrifice contribution, is not taxed in the fund. The member will have a net super contribution of \$5,000.

**Salary sacrifice:** The member chooses to salary sacrifice \$5,000 straight into super, so they will only pay income tax on \$25,000 (not \$30,000). This means their income tax will be reduced. This example of salary sacrifice results in a \$750 increase in after-tax salary. However, the member's salary sacrifice contributions are taxed at 15% when paid into a super fund, so they will have a net super contribution of \$4,250 rather than the \$5,000 sacrificed to their super.

**In this example the increase in net after tax salary of \$750 is offset by a decrease in the value of the net contribution to their super by \$750. At this salary level there may be no overall benefit gained through Salary Sacrificing to super.**

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