

Salary sacrifice is an arrangement where you agree to give up part of your future salary or wages in return for your employer making a superannuation contribution of a similar value.

Under an effective salary sacrifice arrangement:

- > You, as an employee, can increase your super and reduce your tax-assessable income by an amount similar to the sacrificed amounts.
- > Your employer can obtain a tax deduction for the increased super contributions, which means that their after-tax position is the same either way.

WHAT YOU SHOULD KNOW ABOUT SALARY SACRIFICE?

It may be less effective for low-income earners

If you earn below \$37,000, there may be a limited advantage in salary sacrificing because the tax rate on your income is only a few percentage points more than the tax on your super contributions (19% income tax compared with 15% for super contributions).

A **Government Co-contribution** could be a more effective way to boost your super.

It may impact your existing benefits

If you have benefits such as compulsory employer super contributions, holiday loading, shift allowances and overtime that are based on actual salary level, these may be reduced under a salary sacrifice arrangement. To protect these, you will need to have a written agreement with your employer that details how these payments will be calculated.

Deductions

You can't claim deductions or tax offsets for before-tax contributions. This is because you're already paying less tax (15%) on the amounts you pay into your super. Similarly, you can't claim a deduction for the cost of any administration fees paid to your employer to set up and keep a salary sacrifice arrangement.

Fringe Benefits Tax

A before-tax contribution isn't a fringe benefit and isn't subject to Fringe Benefits Tax. This means that salary sacrifice contributions don't need to be reported on your PAYG payment summary.

Employer

As of 1 January 2020, salary sacrificed contributions will no longer be considered super guarantee contributions from your employer. For example, if you choose to salary sacrifice 5% of your pay into your super, your employer must still pay 9.5% or more of your ordinary time earnings base, including the salary sacrifice amount, into your super to avoid the super guarantee charge.

WHAT ARE THE RULES?

A salary sacrifice arrangement must be in writing and satisfy all of the following requirements to be considered effective:

There is an agreement between you and your employer

The agreement can move only to after payments and it cannot be backdated. All the terms of the salary sacrifice arrangement should be clearly documented.

The arrangement must be made before you are entitled to payment

The salary sacrifice arrangement must be entered into before you have earned the income. Subject to the terms of your contract of employment, industrial agreement or award, you can stop or start a salary sacrifice arrangement at any time, including changing the contribution amounts.

There must be no access to the sacrificed salary

The wages being sacrificed must be permanently give up. Any benefit entitlements paid in cash form part of your normal salary or wages, including deposits made by your employer into your bank account.

RESTRICTIONS TO BE AWARE OF

- > Your employer may limit the amount you can salary sacrifice (pay into your super before tax).
- > You cannot salary sacrifice income that you have already earned.
- > You cannot salary sacrifice bonus or commission payments after they have been earned.
- > There is a limit (called “the cap”) on the amount of concessional contributions that can be paid into your superannuation account each year before they attract tax at your marginal income tax rate.
- > Concessional contributions include SG, salary sacrifice, personal (tax deductible) contributions and other employer contributions.
- > The concessional contribution cap is \$25,000 for all individuals regardless of age.
- > Any amount that exceeds these limits will be subject to additional personal tax plus the excess concessional contributions charge. The additional tax and charge will be determined by the Australian Taxation Office (ATO).

HOW DO YOU START SALARY SACRIFICING INTO SUPER?

Ask your employer if they have a salary sacrifice arrangement. If so:

1. Complete the written agreement and ensure that it is signed by you and your employer.
2. Your employer will keep the agreement in your payroll file.

WHAT ARE THE IMPLICATIONS OF SALARY SACRIFICING?

<p>Assessable income and payment summaries</p>	<p>The salary sacrificed component is not counted as income for taxation purposes. This means it is not included on your payment summary and is not subject to Pay As You Go (PAYG) withholding tax. The reduced salary amount specified in a salary sacrifice arrangement becomes your assessable income for taxation purposes and should appear on the payment summary your employer gives you.</p> <p>Employers are required to report salary sacrifice contributions, or any other contributions where the employee has some discretionary control of the Payment Summary, for that financial year (known as Reportable Employer Super Contributions).</p>
<p>Tax on contributions within super</p>	<p>You should be aware that contributions will generally be taxed at 15% within your super fund. The super fund cannot generally accept employer or member contributions unless your Tax File Number (TFN) has been provided to the fund. In addition, tax may be payable when you withdraw benefits from the Fund if you are under age 60 at the time.</p>
<p>More information</p>	<p>More details about salary sacrifice is available from the Australian Taxation Office (ATO) website ato.gov.au/super or call 13 10 20.</p> <p>If you would like to speak to a member of First Super’s Financial Advice Team to discuss this further, call 1300 360 988.</p>

CONCLUSION

Salary sacrifice is one of the most popular and effective strategies to build a large super balance.

However, as with any financial commitment, it is important to review the consequences before implementing a salary sacrifice agreement.

To discuss whether salary sacrificing is right for your circumstances, speak to one of our authorised Financial Planners* - see firstsuper.com.au/advice or contact our Member Services Team to book an appointment.

WANT TO KNOW MORE? WE'RE HERE TO HELP.

Please contact our Member Services Team today.

Call **1300 360 988**
 Email **mail@firstsuper.com.au**
 Website **firstsuper.com.au**



CASE STUDY – CRYSTAL BOOSTS HER SUPER BY SALARY SACRIFICING

Crystal earns \$90,000 before tax, excluding her employer's super guarantee contribution. If Crystal decides to redirect \$10,000 of her pay into salary sacrifice super contributions, she will save \$3,450 in tax, with the extra money going into her super fund.

Crystal's income	Without salary sacrifice	With salary sacrifice
Gross salary	\$90,000	\$90,000
Less salary sacrifice to super	\$0	\$10,000
Less tax + Medicare levy	\$21,517	\$18,067
Take-home (net) pay	\$68,483	\$61,933
Crystal's super		
Employer super contribution	\$8,550	\$8,550
Plus salary sacrifice	\$0	\$10,000
Less contributions tax	\$1,283	\$2,783
Net super contribution	\$7,268	\$15,768

Assumptions: The figures used in this table are estimates only and are based on 2020/21 income tax rates and a Medicare Levy of 2%. Employer super contributions remain the same after salary sacrifice.

In this scenario, Crystal's take-home pay will drop by \$6,550, she will save \$1,950 in tax on income and super, and she will have an extra \$8,500 in her super account.

Important information

The content is accurate and reliable as at 1 July 2020. This information is of a general nature only and does not take into account your personal circumstances or situation. We recommend that you seek qualified financial advice before making any investment decision. This document is provided by First Super Pty Ltd ABN 42 053 498 472, AFSL No. 223988, as the Trustee of First Super ABN 56 286 625 181. If you intend to invest in or continue to hold this product you should obtain and consider a copy of the Product Disclosure Statement which is available by calling 1300 360 988.

*First Super Financial Planners are authorised representatives of Industry Fund Services Limited (ABN 54 007 016 195, AFSL 232514).

First Super Pty Ltd

ABN 42 053 498 472
 AFS Licence No: 223988
 RSE Licence No: L0003049
 First Super Pty Ltd as Trustee
 of First Super ABN 56 286 625 181