

Salary sacrificing into your superannuation – It's worth it

This is where you choose to make an arrangement with your employer to reduce your cash salary and have the difference paid into your superannuation (super) account as employer contributions.

Salary sacrificed contributions are also referred to as pre-tax contributions because the employer makes them from your gross salary (i.e. from pre-tax money).

What are the benefits?

Salary sacrificing into your super is a way of increasing your super balance for the future with tax benefits. The tax advantage for employees is that salary sacrificed contributions are only taxed at the rate of 15 per cent going into the super fund, compared with cash salary, which is taxed at your marginal tax rate.

What you may need to consider

Salary sacrificing into super may not suit everyone. You should consider possible impacts as a result of reducing your "salary". Talk to your employer to find out if salary sacrificing will affect any other employment benefits you receive, such as compulsory Superannuation Guarantee contributions and leave loading. Most employers offer salary sacrificing without reducing these benefits.

Salary sacrifice contributions were previously exempt but are now included in the income test for:

- Mature Age Offset
- Spouse Contribution Rebate
- Family Tax Benefit
- Health Cards
- Government Co-contributions

Also, if your marginal tax rate is low, salary sacrificing may offer little advantage as salary sacrificed contributions are taxed at 15 per cent in the super fund. Depending on this, it may be better to make some or all of your contributions as after-tax personal contributions and receive the Government Co-contribution. Many members use a strategy of combining both salary sacrificed contributions and after-tax personal contributions to maximise their benefits.

You may want to speak to your financial adviser before deciding to salary sacrifice.

To sacrifice or not to sacrifice – compare the difference

The example below has been calculated using the 2010/2011 income tax rates.

Salary	No Salary Sacrifice	Salary Sacrifice
Gross salary	\$40,000.00	\$40,000.00
Less Salary Sacrifice	\$0.00	-\$5,000.00
Taxable salary	\$40,000.00	\$35,000.00
Less Income Tax 2010/11 (including Medicare levy & including low income tax offset)	\$5,050.00	\$3,575.00
Less after-tax personal contribution	\$0	\$1,000
Take home salary	\$34,950.00	\$30,425.00
Superannuation Contribution		
Salary Sacrifice	\$0	\$5,000
Less 15% contributions tax	\$0.00	\$750.00
After tax contribution	\$0	\$1,000
Government Co-contribution	\$0	\$731
Super Benefit	\$0.00	\$5,981.00
Net Benefit		
Take Home Salary	\$34,950.00	\$30,425.00
Plus Super Benefit	\$0	\$5,981.00
Net Benefit	\$34,950.00 (A)	\$36,406.00 (B)
BENEFIT OF SALARY SACRIFICING (A) – (B) = \$1,456 p.a.		

Is there anything else I should know?

- You will need to speak to your employer to make this arrangement.
- A salary sacrificing arrangement can only be made prospectively (based on future remuneration). To set up an arrangement for 2010/2011, speak to your employer now.
- If you are under age 50, the maximum concessional contribution is capped at \$25,000 per annum, if you are over age 50, the maximum concessional contribution is capped at \$50,000 per annum. Concessional caps include Superannuation Guarantee and Salary Sacrifice contributions.
- Super is for retirement purposes and therefore you generally cannot get access to your salary sacrificed contributions until you retire after reaching age 60¹.

2010 Federal Budget announcement: A 'catch up' concessional contribution cap should apply from 1 July 2012 to people over age 50 and who have less than \$500,000 in their superannuation account. This announcement has not become law and the Government will release more information in due course.

Where do I go for more information?

If you have any questions about your IOOF super account, please speak with your financial adviser. Alternatively, IOOF has a dedicated Client Services Team available to speak with you Monday to Friday between 8.30am – 6.00pm. You can phone us on **1800 062 963** (for personal super members) or **1800 653 894** (for employer and corporate super members), email clientservices@ioof.com.au or visit our website www.ioof.com.au

¹ If you were aged 45 or more on 1/7/2009 you can access your super at a younger age, between 55 and 59.

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