SALARY SACRIFICE

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Benefits

- Investing in your superannuation enhances your savings for achieving your retirement objectives. Salary sacrifice ensures disciplined savings since your earnings automatically flow into your superannuation.
- Superannuation fund earnings are subject to a special concessional tax rate, in contrast to earnings from non-superannuation investments, which are generally taxed at higher marginal tax rates.
- This action reduces your taxable income, subsequently lowering your personal income tax liability.
- The amount you salary sacrifice into your superannuation is considered part of your ordinary time earnings (OTE), to the extent that it relates to OTE.

How it works

Salary sacrifice involves choosing to receive a portion of your future salary as contributions to your superannuation fund rather than as cash. These contributions receive concessional tax treatment instead of being taxed at your regular marginal tax rate. This tax advantage can promote the growth of your retirement savings. If your 'income' exceeds the 'high income threshold,' you may incur additional tax on some or all of your concessional contributions.

To make this arrangement effective, you must establish it with your employer before becoming entitled to your salary or wages. For instance, if you initiate a new salary sacrifice arrangement today, it cannot cover the salary you earned last week because you were already entitled to that income.

It's essential to confirm with your employer whether salary sacrifice is offered since it is not mandatory. If your employer provides this option, ensure you understand their requirements for implementing the arrangement.

It is advisable to document the terms of your salary sacrifice arrangement, including the frequency of superannuation contributions and confirmation that your other workplace entitlements (such as the Superannuation Guarantee and termination payments) will not be reduced due to the lower cash salary.

Contribution Caps

There are annual caps on the amount you can contribute to superannuation as concessional contributions. Concessional contributions typically comprise pre-tax income contributions (e.g., Superannuation Guarantee and salary sacrifice) and deductible contributions for which a deduction has been claimed.

If you exceed your concessional contribution cap, excess contributions must be withdrawn from your superannuation and are subject to taxation at your marginal tax rate, minus any taxes already withheld within the fund. An interest penalty may also apply.

Unused portions of your concessional contribution cap can be carried forward for up to five years, allowing you to utilise them later. However, any unused amounts after five years expire. These carry-forward rules apply exclusively to concessional contributions into superannuation and not to non-concessional contributions, which have different caps.

Key Consideration

- Implementing a salary sacrifice arrangement will reduce your take-home pay, necessitating careful budgeting to ensure you meet your financial needs.
- Salary sacrifice contributions are categorised as reportable superannuation contributions. While they are not part of your assessable income, they are included in your tax return for determining eligibility for specific benefits, concessions, and obligations.
- Contributions to superannuation remain locked until you meet a condition of release, so it's essential to be certain that you won't need access to these funds until retirement.
- Salary sacrifice contributions are added to your taxable component, and tax becomes payable if you access these funds before age 60 or if they are paid as a death benefit to non-tax dependents, such as adult children.
- Consult your accountant to confirm your tax situation and determine the appropriate deduction for your overall tax position.
- Be aware that there may be fees associated with your superannuation contributions, and you should review the fee details in your Statement of Advice and Product Disclosure Statement (PDS) for your superannuation fund.
- As of a specified date, all employees are eligible to claim tax deductions for personal contributions. It is advisable to review your situation before this date.
- Keep in mind that future changes to superannuation legislation by the government are possible.

References

You may wish to refer to the following websites for further information about salary sacrifice:

- www.moneysmart.gov.au
- www.ato.gov.au

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