

Superannuation – Salary sacrifice

Salary sacrificing your employment income into superannuation may help to increase your retirement savings and may also reduce the amount of income tax you pay.

How it works

Salary sacrifice is an arrangement where you elect to receive part of your future salary as superannuation contributions instead of cash. The amounts sacrificed into superannuation are taxed at up to 15% instead of your marginal tax rate which may be up to 47%. This tax saving may help your retirement savings grow. If you're a high income earner with income from certain sources that is greater than \$250,000 (in the 2020/21 financial year) you may pay an additional 15% tax on all or part of your concessional contributions.

To be effective, you can only salary sacrifice salary and other benefits which you haven't yet accrued or become entitled to. This generally means that you need to have the salary sacrifice arrangement in place with your employer before becoming entitled to the salary or wages. For example, if you put a new salary sacrifice arrangement in place today, it cannot cover the salary you earned last week because you are already entitled to that salary.

You need to confirm with your employer that you are able to salary sacrifice because it is not compulsory for employers to facilitate it. If your employer does offer salary sacrifice, you should also check what they require to put the arrangement in place.

It is recommended that you set out the terms of your salary sacrifice arrangement in writing. This should include an agreement on how often the superannuation contributions will be made and confirmation that your other workplace entitlements (such as termination payments) will not reduce due to the lower cash salary.

NOTE: Since 1 January 2020, employers must include salary sacrifice amounts to superannuation when determining their superannuation guarantee obligation.

Contribution caps

There is a cap on how much can be contributed as concessional contributions each year. The concessional contribution cap for the 2020/21 is \$25,000.

This cap includes any contributions salary sacrificed but also superannuation guarantee and personal deductible contributions. There are certain other contributions that may also count (e.g. distributions from superannuation fund reserves).

If the cap is exceeded, you will pay tax on the excess at your marginal rate less the 15% already paid within your superannuation fund. Interest penalties will also apply. You can make an election to withdraw the excess from superannuation. If you don't make this election, the excess concessional contribution will also be counted towards the non-concessional contributions cap. Additional tax penalties may apply if you also exceed the non-concessional contribution cap.

Catch up Concessional Contributions

Since 1 July 2018, you may be able to accrue your unused concessional contributions and carry these amounts forward to enable you to make concessional contributions in excess of the annual cap in subsequent years. Amounts are carried forward on a five-year rolling basis. The regime only applies to unused amounts accrued since 1 July 2018. To make use of a carried forward concessional contribution, your total superannuation balance (which includes all superannuation pension and accumulation accounts) cannot exceed \$500,000 on the 30 June of the previous financial year. Unused amounts which you have not used within five years cannot be carried forward.

Low Income Superannuation Tax Offset (LISTO)

If you have an adjusted taxable income of less than \$37,000 p.a. you may receive a LISTO contribution from the Government paid into your superannuation fund equal to 15% of your total concessional superannuation contributions for an income year, capped at \$500.

The Australian Taxation Office (ATO) will determine your eligibility for the Low Income Superannuation Tax Offset and advise your superannuation fund annually.

Benefits

These may include:

- Investing in superannuation may help to boost your savings to help meet your retirement goals. Salary sacrifice provides disciplined savings because your salary is automatically directed into your superannuation.
- The after-tax rate of return inside superannuation may be higher than investing outside superannuation. This is because earnings inside superannuation are taxed at a maximum rate of just 15%, whereas earnings from non-superannuation investments are generally taxed at your marginal tax rate which could be higher. This may help your savings to grow faster.
- Salary sacrificed contributions are concessional contributions (along with some other types of contributions such as employer contributions) and are assessed against the concessional contributions cap. These contributions are taxed at up to 15%. Some high income earners may pay an additional 15% tax on all or part of their concessional contributions.
- Your taxable income will reduce which also reduces your income tax liability.
- The additional contributions may help to cover the cost of insurance premiums if you hold insurance inside superannuation.

Risks and Consequences

- Your take-home pay will reduce because of the salary sacrifice arrangement. You need to ensure you continue to have sufficient income to meet your needs.
- Salary sacrifice contributions are reportable superannuation contributions. This means the contribution is not included in your assessable income, but is included on your tax return for the purpose of determining your eligibility to certain Government benefits, concessions and obligations.
- All contributions to superannuation are preserved until you meet a condition of release, such as retirement after you reach preservation age. You need to be sure that you do not need access to the amount sacrificed until you meet one of these conditions.

- The salary sacrifice contributions are added to your taxable component. Tax will be payable if you access these amounts before age 60, if they are paid as a death benefit lump sum to non-tax dependants (e.g. adult children), or if they are received by an eligible beneficiary as a death benefit income stream where you're under age 60 when you pass away and your beneficiary is also under 60.
- Tax and other penalties apply if you exceed your concessional contribution limits.
- The total amount of superannuation money used to start pensions is subject to a transfer balance cap (\$1.6 million in the 2020/21 financial year). You can retain excess amounts in your accumulation accounts where tax on earnings at up to 15% continues to apply.
- You should confirm your tax situation with your accountant as this strategy relates to your overall tax situation.
- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- Depending on your circumstances, you may be able to claim a tax deduction for personal superannuation contributions instead of salary sacrificing an amount to superannuation. This may offer a more suitable alternative depending on your circumstances. There are a number of considerations so it is best to seek advice to determine the most appropriate strategy for you.
- The Government may change superannuation legislation in the future.

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