



Guide To...

Salary Sacrifice

What is salary sacrifice?

Salary sacrifice is an arrangement between you and your employer, which involves giving up part of your pre-tax salary in exchange for an alternative benefit, such as superannuation contributions.

Arranging a salary sacrifice agreement can not only be beneficial to you, it can also be beneficial to your employer as your salary package costs less for them to provide. However, salary sacrifice into superannuation needs to be looked at carefully, as there are some important issues to consider.

How does it work?

If you want to contribute \$1,000 of your salary to superannuation, there are two ways in which you can achieve this. You can invest your income after tax, (this is known as making a non concessional contribution) or you can enter into a salary sacrifice arrangement with your employer.

The after tax value of your \$1,000 is \$555, assuming that tax is payable at the highest marginal tax rate of 45% plus Medicare levy. This means that you will have only slightly more than half of your initial \$1,000 to invest.

When you arrange to salary sacrifice, your employer contributes to superannuation on your behalf. The amount of the contribution is deducted from your gross (before tax) salary. In this way, your superannuation is funded by pre-tax dollars. You only pay personal income tax on the balance of your salary.

Out of the \$1,000 contributed to the superannuation fund by your employer as a result of your salary sacrifice, the superannuation fund will deduct tax from the contribution at the rate of 15%. Effectively, a sum of \$850 will usually be available for investment by the trustee of the superannuation fund on your behalf.

Some issues to consider

- Before arranging a salary sacrifice arrangement, you should check that this will not affect other entitlements that you have with your employer, such as workers compensation, holiday and personal leave and also the 9% Super Guarantee.
- Salary packaging may not be appropriate for those in low income tax brackets.

Effective salary sacrifice

Salary sacrifice is only effective if the following conditions have been satisfied.

- As an employee you must elect to enter into the salary sacrifice arrangements prior to the point in time at which any relevant employment services are performed, or prior to the commencement of services. In other words, salary sacrifice must not be retrospective. Salary sacrifice arrangements must be made in writing between you and your employer.
- Your cash salary must not be reduced below the minimum level specified in any relevant award or industrial agreement.
- The salary packaging agreement must not allow cash to be received instead of non-cash benefits.

Salary sacrifice can serve remuneration planning and savings objectives. However, the rules are complex and it is important that you get appropriate advice before you enter into any arrangement.

If you have any queries in relation to the content of this material, please do not hesitate to contact Kate Kimmorley the Principal Financial Adviser at Kimmorley Financial Management on (07) 5591 1725.

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