What is Salary Sacrifice?

Hywood Partners

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Salary sacrificing into superannuation involves foregoing part of your pre-tax salary and having these funds contributed into your super fund by your employer. This then reduces your taxable income and thus the tax you pay as an individual; however the funds contributed into super are taxed at 15% within the fund.

People in the higher marginal tax rates, i.e. taxable income over $80,000 and especially those with taxable incomes over $180,000 stand to benefit the most from salary sacrificing as the monies sacrificed into superannuation are taxed at 15% compared to either 39% for those with taxable incomes over $80,000 and 49% for those lucky enough to have a taxable income over $180,000 (including Medicare Levy and Temporary Budget Repair Levy).

As a side note, those with an 'adjusted taxable income' over $300,000 have their contributions taxed at the higher rate of 30%.

Whilst the benefits to employees are obvious, not all employers agree to allow employees to salary sacrifice.

Should your employer allow you to salary sacrifice it is very important that any salary sacrifice arrangement meets the requirements set out by the Tax Office; in particular you can only salary sacrifice future earnings. Best practice is to have the arrangement in writing prior to any contributions commencing.

PROS

1. Allows a taxpayer to reduce his/her taxable income and thus the tax paid by the individual. This is partially offset by the 15% tax paid on the contributions received by the fund.

2. Salary sacrifice arrangements are usually very flexible; if your cash flow suffers some crisis you can often cease the arrangement at short notice.

CONS

1. Funds contributed into superannuation are subject to strict rules; in particular access to funds within superannuation is essentially restricted till the person has retired.

2. The amount that can be concessionally contributed into superannuation, i.e. a tax deduction claimed, is limited depending on your age. For someone under 50 the maximum allowed is $30,000, whilst for those 50 and over the limit is $35,000.

3. In the current environment it appears governments of both political persuasions are keen to reduce the tax concessions available to some taxpayers and thus the risk of legislative change looms large on the horizon.

Quality advice should ensure clients understand the risks they are entering into and possibly introduce strategies to mitigate, minimise, or possibly even eliminate some of the risks.

Work hard. Play hard. Plan hard.

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