Salary Sacrifice

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PORTFOLIO
FINANCIAL STRATEGIES

Salary Sacrifice

A very popular strategy employed by many is to direct pre-tax income to their superannuation funds, or salary sacrifice to super. Is has become one of the most tax effective strategies available.

The salary sacrifice agreement is one which is entered into between the employer and employee, however, offering salary sacrifice agreements is at the discretion of the employer.

There are two major benefits of salary sacrificing to your super fund:

TOP UP YOUR RETIREMENT SAVINGS. The benefits of a long-term consistent savings pattern will put the powers of compounding to work and result in more funds at retirement.

REDUCED RATE OF TAX. Contributing pre-tax income to your super fund will result in the income being taxed at the concessional rate of the superannuation environment 15%. Receiving the funds as salary results in the money being taxed at your marginal rate of tax, potentially up to 46.5%.

The salary sacrifice to super strategy is most suitable for anyone earning above $37,000. The reason is that income earned above the rate is taxed more if received in cash than it is if contributed to your super fund.

It is important to understand the full impact of salary sacrificing to super prior to entering into an agreement. Salary sacrificing to super is classed as an employer contribution, and your employer may class your salary sacrifice contributions to reduce or eliminate their liability to make SG Contributions.

Take advantage of the taxation efficiencies of the superannuation environment to assist in the growth of your retirement savings.

CASE STUDY

Let's have a look at an example of how you may best undertake this strategy. Fred and Wilma, both 50 years old, work full time in their own business. Their children have left home, and they are now in retirement savings mode. They each draw an income of $100,000 from their business, and pay 9% ($9,000 per annum) to their super funds as employer superannuation contributions.

They decide to supercharge their retirement savings by contributing part of their income to their super fund. They decide that they can afford an additional $25,000 each, this contribution is taxed at 15%, or $3,750 each. Had they received the income in the form of salary, they would have paid $9,275 each – a tax saving of $6,025 each, or $12,050 total.