SALARY SACRIFICE TO SUPERANNUATION

Salary sacrifice is a tax effective form of savings; by salary packaging into superannuation, you are saving pre-tax dollars rather than post-tax dollars. This difference (for the 2021/22 financial year) is best seen in the following table:

Taxable income 2021/22	PAYG rate of tax	Salary sacrifice rate of tax
$0 - $18,200	0%	15%
$18,201 - $45,000	19%	15%
$45,001 - $120,000	32.5%	15%
$120,001 - $180,000	37%	15%
$180,000 - $250,000	45%	15%
>$250,000*	45%	30%*

* Division 293 tax increases the tax rate on Superannuation Guarantee salary sacrifice contributions to 30% for taxable income over $250,000

The "salary sacrifice rate of tax" column shows the total rate of tax on the way in for salary sacrifice contributions, including contributions tax. The table shows that any income received, in excess of $180,000 in the 2021/22 financial year, is taxed at 45%. With Medicare Levy, this is 47%, leaving you with only $53.00 out of every $100 of gross income. In the 39% marginal tax rate (on income between $120,001 and $180,000), you are left with only $61.00 out of every $100 of gross income.

If this same $100 of gross income is sacrificed into superannuation, the tax loss will be 15% leaving you with a net deposit of $85.00.

Amounts between $45,001 and $120,000 (marginal tax rate of 34.5%) and between $18,201 and $45,000 (marginal tax rate of 21%) this financial year will produce a lower saving, but any tax saving is a good tax saving.

Apart from being able to invest your funds for the future more tax effectively by using salary sacrifice, it is important to understand why to invest in a superannuation fund rather than in other investments.

Assets that are invested inside superannuation (both accumulation and allocated pension funds) are taxed inside the fund, at the special tax rate applying to these funds. As superannuation is the Government's preferred form of retirement savings, it receives concessional taxation treatment, as can be seen in the table below.

This table shows the rate of tax payable inside an allocated pension fund, an accumulation fund and a Transition to Retirement AP (TtRAP), and by an individual at marginal tax rates of 21%, 34.5%, 39% and 47%.

An allocated pension is not available until you reach your preservation age and a condition of release (such as you retire, you reach age 60 years of age and an arrangement under which you were gainfully employed has come to an end, or you reach age 65). Prior to this point, the accumulation phase is the most tax effective structure for your investments.

1 Allocated pensions, TtRAPs and accumulation funds are able to claim unused imputation credits on shares. The fact that their tax rate is lower than the rate of the imputation credit means that they get back more tax than they paid. This effectively becomes a negative rate of tax.

2 When an asset is held for at least 12 months, it becomes a discounted capital gain.

Type of payment	Allocated pension	Accumulation & TtRAPs	21%	34.5%	39%	47%
Franked income	(42.9%)[1]	(21.4)%	(12.9%)	6.4%	13.9%	24.3%
Unfranked income	0%	15%	21%	34.5%	39%	47%
Capital gains	0%	15%	21%	34.5%	39%	47%
Discounted capital gains[2]	0%	10%	10.5%	17.25%	19.5%	23.5%

Given the tax concessions associated with salary sacrificing into superannuation, the "catch" is these contributions cannot be accessed until you fully retire from the workforce (i.e. you reach your preservation age and are working less than 10 hours per week), or you are over 60 years of age and an arrangement under which you were gainfully employed has come to an end, or you reach age 65.

The tax on the way out could be between 0% and 17% (depending on whether, if you are under age 60, you have used up your $225,000 Taxable component low rate cap). To explain further, no-one will pay tax on the first $225,000 (low rate cap for 2021/22) of the Taxable Component of lump sum withdrawals between preservation age and age 60. Any amount withdrawn over this threshold before age 60 is taxed at 17%. This figure is indexed annually (although only increasing when it reaches the next $5,000 increment), and does not include the value of your own personal contributions from your after tax pay (the Tax-free Component).

Superannuation lump sums accessed after age 60 will be exempt from tax.

Therefore, if you were to salary sacrifice some of your income into superannuation with the intention of retiring before age 60 and accessing no more than that allowed by the low rate cap leaving the remainder to after age 60, the only tax loss would be the 15% contributions tax on entry.

The question then becomes how much you should salary sacrifice.

Importantly, when salary sacrificing, you need to be aware of the **concessional contribution limit. Concessional contributions include employer superannuation guarantee contributions, employer productivity contributions, your salary sacrifice contributions, or other tax deductible contributions.**

On 1 July 2021, the concessional cap was increased to $27,500 for everyone but, more importantly for defined benefit (DB) contributors, the cap includes an estimate of the contributions that 'should' have been paid by the employer. The calculation is complex and varies from scheme to scheme. Generally, though, notional employer contributions are calculated using a proxy actuarial formula. Each DB fund will provide a fact sheet on how these contributions are calculated for that fund. If you wish to maximise your concessional contributions, you should seek professional assistance or access DB calculators provided to calculate your DB notional employer contributions.

There are financial penalties for exceeding the limit, so it is important that you do not do so.

Example

The following example demonstrates the effect on salary and the tax benefits that can be attained from salary sacrifice to superannuation based on the following assumptions:

- $150,000 per annum salary ($5,750.80 per fortnight);
- 10% superannuation guarantee contributions by employer ($15,0000 per annum); and
- Salary sacrifice to maximise the $27,500 concessional contribution limit (over a full financial year with 26 fortnightly pay days).

Firstly, to determine how much you can salary sacrifice, you must take into account your employer's concessional contributions. In this case, the employer is making 10% superannuation guarantee contributions of $15,000 per annum. If we deduct this $15,000 per annum from the $27,500 concessional contribution limit, this leaves $12,500 of the concessional contribution limit available for salary sacrifice. This means that this individual could salary sacrifice $480.76 per fortnight ($480.76 x 26 or $12,499.76 p.a.) over a full 26-pay financial year and remain within the concessional contribution limit.

The following table demonstrates the tax benefit on an annual salary of $150,000 per annum, of salary sacrificing $12,499.76 using the 2021/22 marginal tax rates.

The net taxation benefit in the table shows the value of the benefit (that is, how much more money you have) when superannuation is paid with pre-tax dollars rather than with after tax dollars with the same net investment.

By salary sacrificing $480.76 per fortnight ($12,499.76 over a full financial year of 26 pay days), this individual will have an additional $115.90 per fortnight ($3,013.14 over a full financial year) working for them inside superannuation than if they had made the same contribution to superannuation with after tax dollars. In addition, these funds benefit from the maximum 15% tax environment on earnings within the superannuation fund (compared to your marginal tax rate if you are saving outside of superannuation).

As you can see, the individual's net salary drops from $4,091.23 per fortnight to $3,798.47 per fortnight. This drop of $292.76 plus the tax saving of $115.90 funds the net increase in superannuation contributions of $408.65 per fortnight, ($480.76 less 15% tax of $72.11).

	Without salary sacrifice to super	With proposed salary sacrifice to super of **$12,499.76** pa
Salary ($150,000 per annum)	$5,769.23	$5,769.23
Superannuation Pre-tax	n/a	($480.76)
Net Taxable Income	***$5,769.23***	***$5,288.47***
Tax Withheld	($1,678.00)	($1,490.00)
Net Cash Income	$4,091.23 p.f. or $106,371.98 p.a.	$3,798.47 p.f. or $98,760.22 p.a.
Equivalent Post-tax Superannuation	($408.65) p.f.	n/a
Net Cash Income	**$3,682.58 pf. .or $95,747.08 p.a.**	**$3,798.47 p.f. or $98,760.22 p.a.**
15% Contributions Tax on Super (deducted by fund from contribution when made)	n/a	($72.11)
NET TAXATION BENEFIT (after 15% contributions tax)		**$115.90 p.f. or $3,013.14 p.a.**

PSS/CSS

Prior to 1 July, a contributor to the PSS or CSS could salary sacrifice to the maximum concessional contributions cap. Members of other DB schemes previously may or may not have had a relatively small deduction from the cap in determining the maximum level of salary sacrificing. The new arrangements mean that Defined Benefit scheme members will have a much lower amount (if any) for salary sacrificing. Some DB members (such as those to the PSS and CSS), can access calculators to calculate employer concessional contributions by logging on to the scheme's website. For others, such as UniSuper members, factsheets have been produced to assist in calculating this figure.

Once the employer concessional contribution has been determined, the amount available to be salary sacrificed can be calculated by deducting the employer concessional contributions from the concessional contributions cap.

For example, if a member of the PSS accesses the calculator and determines that employer contributions are $12,690, there will be $14,810 (the current cap of $27,500—$12,690) available to be salary sacrificed.

OTHER CONSIDERATIONS

Some employers use external administrators to undertake the salary packaging administration work for their employees; these administrators often charge a fee (generally between $100 and $300 per annum or $3.85 and $11.54 per fortnight). The salary packaging administration fee can also be salary sacrificed (that is, paid with pre-tax dollars) but this does not count towards the cap.

You should note that although any salary sacrificed funds contributed to superannuation will be preserved until you meet a condition of release such as retirement, one important consideration with salary packaging is that the arrangements can be altered at any time. This means that you can increase (as long as you remain within the concessional contribution limit), decrease or cease the contribution altogether if your personal circumstances change.

CAUTIONARY MEASURES WHEN SALARY SACRIFICING CLOSE TO THE CONCESSIONAL CONTRIBUTION LIMIT

If you breach the concessional contribution limit, the excess only (that is, the amount you breach the limit by) will be included in your assessable income and taxed at your marginal tax rate at tax time.

You are entitled to a 15% tax offset on your excess concessional contributions (the offset is not refundable to you) and you can elect to have up to 85% of your excess contributions (which represent your excess contribution less the 15% tax on entry to superannuation) released from your superannuation and refunded to you. In addition, if you have excess concessional contributions then an excess concessional contributions charge will also apply in recognition that by making excess contributions you are avoiding this amount being taken into account under the PAYG rules and therefore are paying tax later than would otherwise be the case. The excess concessional contributions charge is calculated and compounded daily at a rate equal to the RBA published 90 day bank accepted bill rate plus 3% and is applied to the income tax liability that is attributable to the excess concessional contribution only. This charge is calculated from the beginning of the financial year (1 July) in which excess contributions were made until the day the payment is due under your first notice of assessment for that financial year from the Tax Office and is due to be paid as specified in the notice of assessment. Clearly, the aim should be to avoid breaching.

Importantly, you should understand when a concessional contribution is made. A concessional contribution is considered to be made in the financial year in which it reaches your superannuation account; that is, it does not matter if it was withdrawn from your pay in the last week of June, if it arrives in your superannuation fund in the first week of July, it will be counted in the new financial year. Notional contributions calculated for a particular financial year will be attributed to that financial year.

Private Sector employees and Public Servants not in the CSS or PSS will see their employer's concessional contributions increase when they receive any salary increase. You should check your pay slip and make any necessary adjustments.

For CSS/PSS/MSBS and DFRDB members, pay increases may not impact on the notional contributions. An increase in your contribution rate during the year will increase your notional defined benefit contributions.

Then, just to be sure that you do not breach the limit, we recommend that, when salary sacrificing close to the concessional contribution limit, you get a print-out from your superannuation fund/s (to which you are salary sacrificing) in say, April, listing the transactions since 1 July of the previous calendar year. This will enable you to tally up what has arrived in your superannuation account and work out how much you will contribute for the remainder of the financial year. Public Sector employees should also marry this up with their employer's notional DB Contributions. You then have enough time to ensure that you make any necessary adjustments to your salary sacrifice to remain under the concessional contribution limit for the financial year.