



# SMSF

## Salary Sacrifice and Super

### **What is this?**

A salary sacrifice arrangement is a contractual agreement between an employee and an employer, where the employee agrees to forego some of their future salary in exchange for something else of similar value. Why would you want to “sacrifice” some of your hard earned salary? There are a number of ways that both an employer and an employee can benefit from an *effective* salary sacrifice arrangement.

It should be noted that an employer is not required to offer salary sacrifice arrangements. However, they can tell you if they do offer any arrangements and what you must do to arrange the agreement. An employee can sacrifice into a variety of benefits including:

- Super
- Car fringe benefits
- Property fringe benefits (including goods, real property, shares, etc)
- Expense payment fringe benefits (such as school fees, child care costs, loan repayments, phone costs etc)

As we are discussing superannuation, obviously we will focus on the super option!

### **So what’s in it for me?**

The amount you sacrifice from your wages is paid as contributions to your super fund by your employer. This reduces the income amount included on your pay slip and thus also reduces the tax you pay on your wages. The contribution amounts are Fringe Benefit Tax exempt and your employer can claim a tax deduction for these contributions. The contributions are paid in pre-tax dollars and the fund pays 15% tax when they are contributed to the fund, which is generally less than what you would pay if you did not enter into the salary sacrifice and these were instead included in your earnings. The benefit is simple – more money in your fund when you retire for less money contributed.

The salary sacrificed amount will be included on your payment summary at the end of the year as reportable employer super contributions. This is not included in your assessable income for taxation purposes however, it will affect the income tests for some tax offsets and deductions, the Medicare levy surcharge and certain government benefits and obligations (such as entitlement for the super co-contribution)

Under an effective arrangement, your income tax liability should be less than it would have been without such an arrangement being in place.



## **Salary Sacrifice and Superannuation Income Streams**

If you are eligible to commence a superannuation income stream, it may be even more beneficial for you to commence this from your fund to replace income you are sacrificing (either in full or in part). Depending upon your circumstances, this can provide an effective way to increase your overall wealth due to the tax savings that can be possible.

### **Effective vs. Ineffective Arrangements**

To make a legitimate salary sacrifice arrangement, certain requirements must be met to ensure the arrangement is "effective". Those that do not meet these requirements are known as "ineffective".

To be an effective arrangement the requirements include:

1. entering the arrangement *before* you perform the work and are entitled to the payment
2. Making an agreement with your employer
3. The salary is permanently foregone for the arrangement period. You obtain whatever the agreed benefit was instead!
4. When sacrificing super, the payments must be made to a complying superannuation fund.
5. Maintaining the relevant documents for five years.

The ATO will treat super contributions made under an ineffective arrangement as a payment of salary and these contributions will be included in your assessable income and subject to PAYG withholding tax. The amount contributed to your fund will be considered a personal contribution and will be counted towards the non-concessional contributions cap for the year. The employer will not be entitled to a tax deduction for the sacrificed amount and may be liable to the super guarantee charge if they have not contributed the correct super guarantee amount in addition to the salary sacrifice contributions.

### **Things to look out for**

- The amount you currently receive as super guarantee and if your agreement is on top of this or if your employer will pay a reduced amount. This must be negotiated with your employer as a part of your salary sacrifice agreement.
- The super contributions cap! Ensure that you will not breach the annual contributions cap and end up with an excess contributions tax penalty. It is a good idea to discuss the timing of contributions with your employer to avoid any problems in this regard.
- It is advisable that you and your employer clearly state and agree on the terms of the arrangement. The contract is usually in writing but may be verbal. If you have an undocumented agreement, you may have difficulties later in establishing the facts of your agreement.
- Check the renegotiation terms and when/how the agreement can be varied by either party

### **Advice**

Please note that while we are happy to discuss salary package calculations and your options in relation to this, we do not give financial advice about accepting or rejecting a salary package. You should seek financial advice prior to entering into a salary sacrifice arrangement.



### Example

On 1 July 2010, Sally & Zoe start work at the same employer, earning \$50,000 a year. Zoe entered into a salary sacrifice agreement with her employer to sacrifice \$10,000 of these earnings into her complying super fund. Sally did not salary sacrifice any of her salary.

The following table shows the difference between Sally and Zoe's income and tax at the end of the 2010/11 income year:

	Sally	Zoe
<b>Remuneration</b>	50,000	50,000
<b>Less Super Salary Sacrifice</b>	-	10,000
<b>Assessable Income</b>	50,000	40,000
<b>Deductions</b>	-	-
<b>Taxable Income</b>	50,000	40,000
<b>Estimated Income Tax Payable</b>	8,100	4,550
<b>Tax on contribution (inside fund)</b>	-	1,500
<b>Total Tax Paid</b>	8,100	6,050
<b>Total Take Home Amount</b>	41,900	35,450
<b>Increase to Super</b>	-	8,500
<b>Total Income</b>	41,900	43,950

In this example, Zoe has increased her overall income by \$2,050. However the amount of income she will take home decreases by \$6,450 as the contributions paid into the fund are not accessible until Zoe meets a condition of release and is able to withdraw this from the fund. However, the amount that Zoe will have to live on upon retirement will be significantly increased.

### Calculators

The government have made available some useful general calculators on their "Money Smart" website that may assist you in relation to a number of financial matters, including superannuation and retirement planning. There is even a handy app for your iphone or android so you can do quick calculations on the go!

Please visit [www.moneysmart.gov.au](http://www.moneysmart.gov.au) and take a look!

---

***Please note that the information above is of a general nature and is not intended to be comprehensive nor does it constitute specific advice. Always seek independent financial advice before making decisions.***



**Always remember that we are available to assist our clients with any questions regarding self managed superannuation funds. Please feel free to email your questions to our office or to give us a quick call if you are unsure of any actions surrounding your fund. Please also inform us of any topics you would particularly like to see in future newsletters!**

