



# Salary sacrifice (before-tax) contributions

This fact sheet provides an overview of salary sacrifice. It provides important information that you need to understand if you are considering making salary sacrifice contributions. Salary sacrifice contributions can only be made to non-pension superannuation accounts.

More details about superannuation contributions can be found in Fact Sheet 1.1 An overview of superannuation contributions and the Member Booklet Supplement: Contributions.

## What is salary sacrifice?

Salary sacrifice is a way of making additional contributions to superannuation from your salary before you have paid tax, instead of after you have paid tax. This can result in a higher net take-home pay while making the same amount of additional super contributions.

By making salary sacrifice contributions, some of your salary is paid straight into super rather than being received and taxed as income. Your total salary for income tax purposes is lower so the tax payable is reduced.

When you salary sacrifice, you and your employer agree to reduce your gross take-home salary and to increase employer (concessional) contributions to your superannuation by the same amount. Employers can claim a tax deduction for the concessional contributions they make to superannuation funds. The employer makes salary sacrifice contributions in addition to your compulsory superannuation guarantee contributions.

Not all employers offer salary sacrifice arrangements so you should check with your employer that it is available, if you would like to contribute this way.

For salary sacrifice to be acceptable to the Australian Taxation Office (ATO), any arrangement with your employer must be *prospective*. This means that a salary sacrifice arrangement with your employer must cover salary that is going to be earned in the *future*, not salary that has been earned in the past.



## What are the limits on salary sacrifice?

Salary sacrifice contributions are concessional (before-tax) contributions and the Government limits the amount of concessional contributions that can be made to superannuation for a person in any one year.

For the 2009-10 financial year, there is a cap of **\$25,000 per person** on the amount of concessional contributions that can receive favourable tax treatment. The cap covers any salary sacrifice contributions you make plus any other contributions your employer makes for you. You will be personally liable for an additional 31.5% tax on the amount of any concessional contributions made on your behalf that exceed the cap. This tax is in addition to the tax of 15% already paid on your concessional contributions by the Fund.

A five-year transition period applies from 1 July 2007 to 30 June 2012 which allows people aged 50 and over on the last day of the relevant financial year to make up to \$100,000 in concessional contributions for 2007-08 and 2008-09, then \$50,000 for 2009-10, 2010-11 and 2011-12 before being subject to excess concessional contribution tax.

Refer to the Member Booklet Supplement: Contributions for more information.

## Who can salary sacrifice?

All members of First State Super, the State Authorities Superannuation Scheme, the State Superannuation Scheme and the Police Superannuation Scheme can make salary sacrifice payments into First State Super if their employment conditions permit it. Please check with your human resources or payroll area to ensure they accept salary sacrifice arrangements.

First State Super does not charge any additional fees if you make salary sacrifice or after-tax contributions. However, you may be charged an administration fee under your employer's arrangements. Please contact your human resources or payroll area to see if an additional administration fee is charged.

## How does salary sacrifice affect my take-home pay?

Depending on your level of income, you may receive more in your take-home pay if you salary sacrifice than if you make the same amount of after-tax super contributions.

The following example illustrates the effect that salary sacrifice has on your take-home pay and on your contributions.

### Tax rates

#### Residential individual marginal tax rates (MTR) from 1 July 2009\*

Taxable income \$ pa	Tax rate
0 – \$6,000	0%
\$6,001 – \$35,000	15%
\$35,001 – \$80,000	30%
\$80,001 – \$180,000	38%
\$180,000 +	45%

\*The above rates do not include the Medicare levy.

## Example: Salary sacrifice (before-tax) contributions compared with after-tax contributions to superannuation.

This example compares Joe's financial outcome if he makes a \$5,000 contribution to superannuation from after-tax income or by salary sacrifice. Joe's taxable income is \$65,000 a year.

### Salary sacrifice (before-tax) contributions

Gross salary	\$65,000
Less salary sacrifice (concessional contribution)	(\$5,000)
Adjusted gross salary	(\$60,000)
Less income tax*	(\$11,850)
Net salary after tax and super contribution	\$48,150

### After-tax contributions

Gross salary	\$65,000
Less income tax*	(\$13,350)
Net salary	(\$51,650)
Less non-concessional contribution (after tax)	(\$5,000)
Net salary after tax and super contribution	\$46,650

Note: \* This does not include the Medicare levy.

**Salary sacrifice** - Joe chooses to salary sacrifice \$5,000 straight into super, so he will only pay income tax on \$60,000 (not \$65,000). This means his income tax will be reduced. This example of salary sacrifice results in a \$1,500 increase in after-tax salary. However, Joe's salary sacrifice contributions are taxed at 15% when paid into a super fund, so he will have a net super contribution of \$4,250.

**After-tax contributions** – Joe pays income tax on his \$65,000 salary and then contributes \$5,000 to superannuation. So Joe pays \$1,500 more in income tax but the super contribution is a non-concessional contribution and is not taxed in the fund. Joe will have a net super contribution of \$5,000 (\$750 more than under salary sacrifice).

You will need to consider your own situation to determine whether salary sacrifice contributions are right for you. You may wish to seek advice from a licensed or authorised financial adviser.

## Can I qualify for a Federal Government co-contribution with salary sacrifice contributions?

No — salary sacrifice contributions do not enable you to receive the Federal Government's superannuation co-contribution. If you are eligible for the superannuation co-contribution, you may wish to seek advice from a licensed or authorised financial adviser before deciding whether to make salary sacrifice or after-tax contributions.

Also, while salary sacrifice contributions effectively reduce your taxable income, they do NOT reduce your income for the purpose of qualifying for the Government co-contribution. For example, if your total income is \$70,000 and you make salary sacrifice contributions of \$20,000, your taxable income will fall to \$50,000 but you will not qualify for the co-contribution because your income for co-contribution purposes remains at \$70,000 (which is above the \$61,920 upper threshold for 2009–10).

## How does salary sacrifice affect tax on super?

**Contributions tax.** Salary sacrifice contributions are subject to 15% contributions tax on entry to the super fund. This tax is usually lower than the marginal tax rate that would apply if taxed as income.

**Taxation of superannuation benefits.** Salary sacrifice contributions form part of the taxable component of your superannuation benefits, whether lump sum or income stream.

Benefits received before age 60 are taxed concessionaly. After you reach age 60 superannuation benefits paid to you from First State Super are tax free.

For more information see Fact Sheet 2, *Tax and super*.

## When can I access salary sacrifice contributions?

As with most superannuation savings, salary sacrifice contributions are preserved (ie. must be kept in the superannuation system) until you meet a condition of release, such as retirement from the workforce.

## Providing your tax file number

From 1 July 2007, if the fund does not have your tax file number (TFN) and your fund account was established before 1 July 2007, and if your concessional contributions are above \$1,000 in a financial year, then all your concessional contributions will be taxed at the top marginal rate (currently 46.5% including Medicare levy). If the account was established on or after 1 July 2007 and we don't have your TFN, all concessional contributions are taxed at the top marginal rate.

A superannuation fund will only be able to accept non-concessional (after-tax) contributions for or on behalf of a member if the member's tax file number has been quoted to the fund.

You can provide your tax file number (TFN) online by visiting the Member Login area of the First State Super website at [www.firststatesuper.com.au](http://www.firststatesuper.com.au). Alternatively you can contact Customer Service on 1300 650 873 and follow the TFN prompts.

## How to begin making salary sacrifice contributions

- Make sure that salary sacrifice arrangements are available from your employer and check whether there are limitations on the amount of salary you are able to sacrifice.
- Find out how your salary sacrifice arrangement can be amended or stopped, and whether an administration fee will be charged by your employer.
- Find out if your employer has specific forms for salary sacrifice arrangements. If not, you can use the *Contribution by payroll deduction* form which is available from the web at [www.firststatesuper.com.au](http://www.firststatesuper.com.au) or phone Customer Service on 1300 650 873.
- Give your completed form to your payroll manager.



# FIRST STATE SUPER

FSS Trustee Corporation

ABN 11 118 202 672 AFSL 293340

## More information

If you need more information please contact us in one of the following ways:

### Internet

[www.firststatesuper.com.au](http://www.firststatesuper.com.au)

### Email

[enquiries@firststatesuper.com.au](mailto:enquiries@firststatesuper.com.au)

### Telephone

1300 650 873 for the cost of a local call  
(unless calling from a mobile or pay phone)  
8.30 am to 5.30 pm (AEST), Monday to Friday

### Postal Address

PO Box 1229,  
Wollongong NSW 2500

### Personal Interviews

Level 18  
83 Clarence Street, Sydney NSW 2000  
Please call first on (02) 9238 5540 to make  
an appointment.

**Important note:** This communication contains general information only and does not take into account your specific objectives, financial situation or needs. It is therefore important, before deciding whether to become a member of First State Super (or, if you are already a member, to continue your membership) that you consider the First State Super Product Disclosure Statement (PDS) having regard to your own situation. The PDS is available by visiting our website or by calling us. The information contained in this document is current as at the date of printing. Prepared by FSS Trustee Corporation (FTC) ABN 11 118 202 672, AFSL 293340, as the Trustee of First State Superannuation Scheme, ABN 53 226 460 365.

