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Salary sacrifice to superannuation

Financial Planning Fact Sheet 03

Why contribute to superannuation? Contributing to superannuation is a tax-effective way to save for your retirement. Salary sacrifice contributions are made by your employer to your superannuation fund from your salary before income tax is taken out. The difference between your income tax rate and the concessional superannuation tax rate provides an opportunity for ongoing tax savings.

Who benefits from salary sacrifice?

The higher your income, the greater the tax benefit to you. However, salary sacrifice is a valuable investment strategy for most of us.

How does it work?

Salary sacrifice is an arrangement where your employer can contribute pre-tax dollars out of your salary to your superannuation fund.

Case Study

Teresa's superannuation contributions are taxed at 15% instead of 34.5% which is her marginal tax rate of 32.5% and 2% Medicare levy. Teresa decides to contribute $5,000 to superannuation. She could do this by using salary sacrifice or use after-tax dollars.
How does making a contribution through salary sacrifice reduce the amount of tax she pays?

By salary sacrificing $5,000 per annum, Teresa has:

- Reduced her income tax by $1,725.
- Contributions tax of 15% (or $750) will be payable on her contributions of $5,000 resulting in a net tax saving of $975.
- Increased her disposable income.

	After-tax Contributions	Salary Sacrifice Contributions
Salary	$60,000	$60,000
Less salary sacrifice to super	$0	$5,000
Equals taxable income	$60,000	$55,000
Less tax	$11,507	$9,782
Less after-tax contribution to Super	$5,000	$0
Equals take home pay	$43,493	$45,218

In addition, Teresa's contributions will benefit from compounding returns over the longer term.

More salary sacrifice benefits

Salary sacrifice is especially suited to you if you want to establish a regular savings and investment habit. Regular superannuation contributions are convenient and provide you with a disciplined approach to saving.

Personal deductible contributions

From 1 July 2017 it may be possible to make Personal deductible contributions (PDCs) regardless of your employment status.

PDCs are super contributions that are made personally (not by an employer) which can be claimed as a tax deduction to reduce your taxable income and income tax payable.

Once you have contributed money to super, there are restrictions on withdrawing it again. This is a positive as it allows your superannuation to grow over a long period of time.

If you already have a significant portion of your assets invested in superannuation, alternative strategies might need to be considered.

Our Financial Planning service can help you in achieving your financial goals by providing a financial strategy tailored to suit your individual needs. We can also assist you with the implementation of the strategy, and regularly review your portfolio to ensure it continues to meet your objectives and financial situation.

For further information or to arrange an appointment with a qualified Financial Planner, please call Financial Planning on **1300 654 193** or email **finplan@bankfirst.com.au**.

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