

Salary Sacrifice

GESB SUPER FACT SHEET

WHAT IS SALARY SACRIFICE?

Salary sacrifice is where part of your pre-tax salary is used for non-cash benefits paid for by your employer. Reducing your pre-tax income by sacrificing some of your salary into your super is an example of salary sacrificing.

This is generally one of the most tax-effective ways to make contributions to your super account.

You can make salary sacrifice contributions through an agreement with your employer. You agree to contribute part of your salary package to your GESB Super account instead of having it paid to you as salary.

In general, salary sacrificing should not affect the amount your employer contributes to your super. However, this is an agreement between you and your employer and will depend on the nature of the salary package.

THE BENEFITS OF SALARY SACRIFICE

Pay less income tax - By making salary sacrifice contributions to your super account, in pre-tax dollars rather than making contributions from your after-tax income, you may obtain an immediate tax benefit by reducing your taxable income and paying less income tax. The amount of the tax benefit depends on your particular circumstances.

Pay less super tax - GESB Super is a 'taxed scheme' so contributions made by your employer only attract a 15% tax - much lower than most personal income tax rates.

Flexible - You can easily start, stop or change your salary sacrifice contribution amount as your situation changes by simply completing a GESB 'Super Contributions' form and giving it to your employer.

Cost-effective - You can salary sacrifice contributions at no cost into your GESB Super account through your employer if you are a WA Public Sector employee.

Simple - Once you have filled in a 'Super Contributions' form and submitted it to your employer, they will send your contributions directly to GESB on your behalf.

CONCESSIONAL CONTRIBUTION CAPS

There are limits, called concessional contribution caps, on how much you can contribute to your super each year and only be taxed at 15% (the concessional tax rate). The caps vary depending on your age. Your salary sacrifice contributions count towards the cap as do your employer's super guarantee contributions.

If you're a GESB Super member under age 50, you can contribute up to \$25,000¹ per financial year without exceeding the cap. If you're age 50 and over, your concessional contribution cap is \$50,000 per financial year (up until 30 June 2012).

If you're under 50 and want to contribute more than \$25,000 to your super (or \$50,000 if you are 50 and over), you can also make personal after-tax contributions. After-tax contributions count towards your non-concessional contribution cap which has a much higher limit of \$150,000² per financial year, regardless of your age.

From 1 July 2009 the amount you salary sacrifice will be reported by your employer on your annual and part year payment summary. The amount reported will be used in the income tests for determining your eligibility to:

- Spouse superannuation contributions tax offset
- Commonwealth Government Superannuation Co-contribution payment
- Deduction for personal superannuation contribution and
- Other Commonwealth Government assistance payments (eg dependency tax offset).

THE COST OF SALARY SACRIFICE

How much you pay will depend on whether you salary sacrifice directly to GESB, or use a salary packaging provider. It also depends on how many other components you salary sacrifice. If your salary sacrifice is arranged through a third party salary packaging provider you may incur a fee.

Most people don't have to use their employer's nominated salary packaging provider. If you only want to salary sacrifice the super component of your package directly to GESB, you can do this at no cost through your payroll system (subject to your employer's agreement). This means you'll avoid spending money on fees, which perhaps could be used to save for your retirement.

ARRANGING YOUR SALARY SACRIFICE

Contact your employer to make sure your workplace has a salary sacrifice arrangement in place. Your employer can then arrange for your contributions to be deducted from your pre-tax salary.

If you would like to go through a salary packaging provider, simply contact their office and they will assist you in setting up your salary sacrifice arrangements.

For a 'Super Contributions' form, call our Member Services Centre on 13 43 72, or download one from www.gesb.com.au/brochures

GETTING PROFESSIONAL ADVICE

There are many factors to take into account with salary sacrificing contributions, so you may wish to seek advice for your personal circumstances from a qualified financial adviser. GESB members have exclusive access to GESB Financial Advice, a wholly owned subsidiary of GESB. For more information about the types of advice available from GESB Financial Advice visit gesbfinancialadvice.com.au. Or contact your Member Service Centre on 13 43 72.

¹ For 2010/11 but indexed to average weekly ordinary time earnings (increased in \$5000 increments) for future years.

² For 2010/11 but indexed at 6 times the concessional cap for future years.

AN EXAMPLE

To help you understand salary sacrifice and the possible tax benefits here is a case study on how salary sacrifice can benefit you in practice.

Amanda receives a salary of \$70,000pa and would like to make a voluntary contribution of \$5,200pa (that is \$100 per week) to her GESB Super account.

	NO VOLUNTARY SUPER CONTRIBUTION	WITH VOLUNTARY CONTRIBUTIONS (FROM AFTER-TAX INCOME)	WITH SALARY SACRIFICE CONTRIBUTIONS (FROM PRE-TAX INCOME)
Gross income	\$70,000	\$70,000	\$70,000
Salary sacrifice amount	\$0	\$0	\$5,200
After-tax voluntary contribution	\$0	\$5,200	\$0
Taxable income	\$70,000	\$70,000	\$64,800
Less income tax including Medicare levy (based on individual resident tax rates for 2010/11)	\$15,600	\$15,600	\$13,962
Contributions tax (15%)	\$0	\$0	\$780
Annual after-tax (net) income	\$54,400	\$54,400	\$50,838
Net amount into Amanda's super	\$0	\$5,200	\$4,420
Total take home pay	\$54,400	\$49,200	\$50,838
Total benefit (income plus super)	\$54,400	\$54,400	\$55,258

By making a \$5,200 voluntary contribution through a salary sacrifice arrangement with her employer, Amanda reduces her annual after-tax income by \$3,562 (\$54,400 - \$50,838), not \$5,200. This is because she is only paying income tax on \$64,800 rather than \$70,000. So, by making a \$100 per week contribution to her super, she reduces her income tax by about \$30 per week.

Also her take home pay only reduces by about \$70 per week rather than by the value of her super contribution (\$100).

By salary sacrificing rather than making an after-tax contribution to her super, or no contribution at all, Amanda also increases her total benefit by \$858 (\$55,258 - \$54,400).

THINGS TO CONSIDER

Tax consequences in relation to salary sacrifice contributions upon payment of the benefit need to be taken into account.

Salary sacrifice contributions are not eligible contributions that count towards the Commonwealth Government Super Co-contribution payment.

Income tax has already been paid on after-tax contributions and therefore no further tax is payable on these contributions.

How to contact us

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