

Salary sacrifice

GOLD STATE SUPER

This fact sheet provides an overview of 'salary sacrificing'; a tax-effective way of making contributions to your super.

WHAT IS SALARY SACRIFICE?

Salary sacrifice, also referred to as Salary Packaging, is an arrangement with your employer where you give up part of your future salary in return for a benefit of similar value from your employer.

Making super contributions under an effective salary sacrifice arrangement is generally one of the most tax effective ways to make contributions to super. The salary sacrifice component of your salary is not included in your assessable income and is therefore not subject to income tax. Also the value of the contribution is not a taxable fringe benefit for Fringe Benefit Tax purposes when made to a complying super fund like Gold State Super.

Salary sacrificed contributions are treated as employer contributions. They will also be treated as reportable employer contributions because you can influence the amount of extra super contributed by your employer. The amount reported will be used in the income tests for determining your eligibility for:

- Spouse super contributions tax offset
- Deduction for personal super contribution
- Commonwealth Government Super Co-contribution payment
- Other Commonwealth government assistance payments

The benefits of salary sacrifice

- **Pay a lower rate of tax** - Contributions made to your super are concessional-tax which may mean that the rate you pay is lower than if you had taken the amount in salary.
- **Pay less income tax** - Salary sacrificed contributions are not included in your assessable income and not subject to income tax. This can mean more money in your take-home pay today, or more money to contribute to super after tax. The amount of the tax benefit depends on your particular circumstances.
- **Flexible** - You can easily start, stop or change your salary sacrifice contribution amount as your situation changes.
- **Cost-effective** - You can salary sacrifice contributions through your employer (subject to your employer's agreement) or through a salary packaging provider.
- **Simple** - Complete a 'Super Contributions' form, submit it to your employer and they will send your contributions directly to us on your behalf. Or contact your salary packaging provider and they can give you the details of how to salary sacrifice.

HOW ARE SALARY SACRIFICE CONTRIBUTIONS MADE?

The salary sacrificed contributions are paid by your employer into your Gold State Super account from your before-tax salary. The amount of these contributions will appear on your benefit statement as 'salary packaged contributions'.

Gold State Super is an untaxed scheme, so no contributions tax will be deducted when the contribution is made. Instead you will pay tax when you withdraw your benefit or roll it over to a taxed fund.

For information on the calculation of tax on your benefit, please refer to the 'Tax and super' fact sheet available from gesb.com.au or by calling your Member Services Centre on 13 43 72.

WHO CAN MAKE SUPER CONTRIBUTIONS USING SALARY SACRIFICE?

Salary sacrifice is available to WA public sector employees who have a salary sacrifice agreement with their employer.

Before using salary sacrifice as a strategy in your super savings, please obtain independent financial advice to determine if salary sacrifice is suitable for your personal circumstances. We have included some examples to help explain the benefits. They should be used as a guide only and not taken as financial advice.

EXAMPLE ONE:

Comparing super contributions with and without salary sacrifice

The table below outlines the difference between making contributions from your after-tax salary (without salary sacrifice) in comparison to your before-tax salary (with salary sacrifice).

Information about Julie - Julie's annual salary is \$60,000 and she currently contributes 5% per annum (\$3,000) to her Gold State Super account.

	Without salary sacrifice	With salary sacrifice
Gross salary	\$60,000	\$60,000
Salary sacrifice contribution	\$0	\$3,000
Less income tax	-\$12,200	-\$11,120
After-tax contribution	\$3,000	\$0
Take home pay	\$44,800	\$45,880

These figures are based on a 2011/12 financial year (including Medicare levy and the Temporary Flood and Cyclone Reconstruction Levy and the low income tax offset). These figures should be used as a guide only, not taken as financial advice.

You should consider the effect of your Commonwealth Government Super Co-Contribution eligibility if you are earning less than \$61,920.

After arranging salary sacrifice contributions through her employer:

- Julie’s taxable income has been reduced by \$3,000 to \$57,000. Her salary sacrificed contributions to her Gold State Super account are not included in her assessable income
- She pays \$1,080 pa less in tax
- For calculating Gold State Super benefits, Julie’s salary is still considered to be \$60,000 per year
- Julie’s salary sacrificed contributions are treated as employer contributions. Gold State Super is an untaxed fund, so no contributions tax is deducted, but Julie will pay tax when she withdraws her benefit or rolls it over to a taxed fund.

Important: Gold State Super is a constitutionally protected fund and is untaxed. Employer and salary sacrificed contributions made to Gold State Super do not count towards your concessional contributions cap and are not subject to contributions tax. There is an untaxed plan cap of \$1,205,000* per super fund which limits the taxable untaxed component of your benefit that can be paid to you or rolled over to a taxed fund or an income stream and still be subject to concessional tax treatment. Any excess taxable untaxed component will be taxed at 46.5%.

* For the 2011/12 financial year, indexed annually for future years.

ADDITIONAL SUPER CONTRIBUTIONS OUTSIDE GOLD STATE SUPER

Additional salary sacrifice super contributions (ie over and above your prescribed Gold State Super contribution amount of 3% to 5%) can be accepted by GESB but they are not made into your Gold State Super account. Instead, additional contributions are made to your existing West State Super or GESB Super account. If you do not currently have a GESB Super or West State Super account, and you want to make additional super contributions, a GESB Super account will be automatically opened for you in order to receive the additional contributions.

Contributions to your GESB account will be invested in your nominated investment plan. If you have not nominated an investment plan, all monies will be invested, as applicable, in the Balanced Growth plan in GESB Super or the Balanced plan in West State Super (which are the default investment plans in these schemes).

EXAMPLE TWO:

Super contributions using salary sacrifice

Information about Tim - Tim is paying tax at the highest marginal tax rate and receives a salary increase of \$5,000. He is considering salary sacrificing \$5,000 into his super rather than taking it as cash. As it is an additional contribution, it will be paid into his GESB Super account.

\$5,000 taken as cash		\$5,000	Salary sacrificed contribution
\$5,000	(extra salary, before tax)	\$5,000	Additional contribution
-\$2,325	(income tax + Medicare levy)	-\$750	Contributions Tax @ 15%*
\$2,675	(extra take home pay)	\$4,250	Amount contributed to GESB Super

* As the additional contribution will be paid into GESB Super, a taxed scheme, contributions tax is applied at the time the contribution is made.

These figures are based on the 2011/12 financial year (including Medicare Levy) and excluding Temporary Flood and Cyclone Reconstruction Levy (if applicable).

By salary sacrificing \$5,000 into his super:

- Tim is able to contribute \$1,575 more to his super than if he took the salary increase as cash (the savings will vary depending on your own personal Marginal Tax Rate)
- The additional contributions are paid into a GESB Super account and are in addition to Tim’s final Gold State Super benefit
- The salary sacrificed contributions are treated as employer contributions and are taxed at 15%

If Tim had a West State Super account, his salary sacrifice contributions would not be taxed when contributed but would be taxed when he accesses his final benefit.

If you would like to make additional contributions, you will need to complete a ‘Super contributions’ form and clearly indicate the amount of salary sacrifice contribution you would like to allocate to GESB Super or West State Super.

For more information about contributions to GESB Super or West State Super, read the ‘Contributing to your super’ brochure available from gesb.com.au or call your Member Services Centre on 13 43 72.

SALARY SACRIFICE AND ‘SUPER SALARY’ FOR THE PURPOSES OF BENEFIT CALCULATIONS

Gold State Super is a defined benefit scheme where your final benefit is calculated as a multiple of your salary at selected dates averaged over the last two years of your employment.

When you salary sacrifice a part of your salary, the foregone cash value of your salary is still recognised as part of your ‘super salary’ for benefit purposes.

Note: Where a non-cash benefit is not ‘convertible’ to cash (eg motor vehicle provided to some senior executives), it is not recognised as salary for super purposes.

LIMITS ON SALARY SACRIFICE AMOUNTS TO GOLD STATE SUPER

The amount of money you can salary sacrifice is based on (and limited to) your percentage contribution and your salary and allowances. You are required to seek financial advice before entering into any salary sacrificing arrangements where you are making super contributions to GESB of 50% or more of your salary.

ACCESSING YOUR SUPER

Salary sacrifice contributions to Gold State Super are preserved until you reach 55 years of age (or earlier on death or disability) and you stop working for the WA public sector.

Salary sacrifice contributions to GESB Super or West State Super are preserved until you meet a superannuation condition of release, such as permanent retirement. Refer to the ‘Accessing your super’ fact sheet available from gesb.com.au for more information.

SALARY SACRIFICE CONTRIBUTIONS AND THE COMMONWEALTH GOVERNMENT SUPER CO-CONTRIBUTION PAYMENT

Salary sacrificed contributions **do not** qualify for a co-contribution payment as co-contributions are only payable if you make an after-tax contribution to your super fund. Salary sacrificed contributions are treated as employer contributions and are made from your before-tax salary.

There are many issues affecting co-contribution payments. We recommend you seek independent financial advice relating to your own personal circumstances.

THE COST OF SALARY SACRIFICE

How much you pay will depend on whether you salary sacrifice through your employer 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 will incur a fee.

Most people don't have to use their employer's nominated salary packaging provider. You can simply salary sacrifice the super component of your package directly to us through your employer's payroll system. All you need to do is complete a 'Super contributions - payroll deduction' form available at gesb.com.au.

This means you will avoid paying a fee which perhaps could be better used to save for your retirement.

INSURANCE COVER

The amount of your death or disability cover is not affected if you salary sacrifice your contributions.

ARRANGING YOUR SALARY SACRIFICE

Contact your employer to make sure your workplace has a salary sacrifice arrangement in place and, if so, ask about the terms and conditions. This agreement is between you and your employer and not with GESB. Your employer can then arrange for your contributions to be deducted from your before-tax salary.

If you wish to make additional contributions to GESB Super or West State Super, you should obtain a copy of the 'Super contributions' form from gesb.com.au or call your Member Services Centre on 13 43 72.

GETTING PROFESSIONAL ADVICE

There are many factors to take into account with salary sacrificing contributions. You may be required by your employer or salary packaging provider to seek independent financial advice (at your own cost) before entering into an agreement. The taxation and legal issues are complex and subject to change. GESB staff are not licensed to give you personal financial product advice.

For more information on salary sacrifice visit gesb.com.au or phone your Member Services Centre on 13 43 72.

How to contact us

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