

Salary sacrifice

WEST STATE 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 West State Super account instead of having it paid to you as salary. You can only salary sacrifice to your West State Super account if you are currently employed in the WA public sector.

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.

No tax on entry contributions - West State Super is an 'untaxed' scheme so you don't pay tax on your super contributions, however tax is paid when your benefit is paid or rolled over to a taxed scheme.

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 West State 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.

No limit - WA Public Sector employees have no limit on the amount of salary they can salary sacrifice into their West State Super account. These members can sacrifice up to 100% of their salary which may be especially beneficial if you are close to retirement. However, there is currently a lifetime untaxed plan cap of \$1,155,000¹ per superannuation fund on the amount of super benefit that will be taxed at the concessional rate upon payment of your super or rollover to a taxed scheme. Any super benefit over this cap is taxed at the highest marginal rate of 46.5% (including Medicare Levy).

If you want to salary sacrifice more than 50% of your salary, you will need to obtain financial advice before entering into these arrangements.

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.

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

By making a \$5,200pa voluntary contribution through a salary sacrifice agreement with her employer, Amanda reduces her annual after-tax (net) 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 contributions (\$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 \$1,638 (\$56,038 - \$54,400).

	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
Annual after-tax (net) income	\$54,400	\$54,400	\$50,838
Net amount into Amanda's super	\$0	\$5,200	\$5,200
Total take home pay	\$54,400	\$49,200	\$50,838
Total benefit (income plus super)	\$54,400	\$54,400	\$56,038

THINGS TO CONSIDER

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

It is important to note that taxed super funds pay tax when salary sacrifice contributions are made to the super fund, but because West State Super is an untaxed scheme tax is only payable when you access your benefit or rollover to a taxed scheme.

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

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

How to contact us

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