Super strategies

Sacrifice pre-tax salary into super

Contributing some of your pre-tax salary, wages or a bonus into super could help you to reduce your tax and invest more for your retirement.

How does the strategy work?

With this strategy, known as salary sacrifice, you need to arrange for your employer to contribute some of your pre-tax salary, wages or bonus directly into your super fund.

The amount you contribute will generally be taxed at the concessional rate of 15%[1], not your marginal rate which could be up to 47%[2].

Depending on your circumstances, this strategy could reduce the tax you pay on your salary, wages or bonus by up to 32%.

Also, by paying less tax, you can make a larger after-tax investment for your retirement, as the case study on the opposite page illustrates.

What income can be salary sacrificed?

You can only sacrifice income that relates to future employment and entitlements that have not been accrued.

With salary and wages, the arrangement needs to be in place before you perform the work that entitles you to the salary or wages.

With a bonus, the arrangement needs to be made before the bonus entitlement is determined.

The arrangement, which should be documented and signed by you and your employer, should include details such as the amount to be sacrificed into super and the frequency of the contributions.

Other key considerations

- Salary sacrifice contributions count towards the 'concessional contribution' cap (which is $25,000 in 2017/18) and tax penalties apply if you exceed the cap.
- You can't access super until you meet certain conditions.
- Salary sacrificing may reduce other benefits such as leave loading, holiday pay and Superannuation Guarantee contributions.
- Another way you may be able to grow your super tax-effectively is to make personal deductible contributions (see opposite page).
- From 1 July 2018, if certain eligibility criteria are met, you may be able to carry forward unused concessional cap amounts. This may enable you to make concessional contributions in excess of the annual cap in a future year.

Seek advice

A financial adviser can help you determine whether salary sacrifice suits your needs and circumstances.

[1] Individuals with income above $250,000 in 2017/18 will pay an additional 15% tax on salary sacrifice and other concessional super contributions within the cap.

[2] Includes Medicare levy.

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Case study

William, aged 45, was recently promoted and has received a pay rise of $5,000, bringing his total salary to $100,000 pa.

He's paid off most of his mortgage, plans to retire in 20 years and wants to use his pay rise to boost his retirement savings.

After speaking to a financial adviser, he decides to sacrifice the extra $5,000 into super each year.

By using this strategy, he'll save on tax and get to invest an extra $1,200 each year, when compared to receiving the $5,000 as after-tax salary and investing outside super.

Details	Receive pay rise as after-tax salary	Sacrifice pay rise into super
Pre-tax pay rise	$5,000	$5,000
Less income tax at 39%[3]	($1,950)	(N/A)
Less 15% contributions tax	(N/A)	($750)
Net amount invested	$3,050	$4,250
Additional amount invested		$1,200

[3] Includes Medicare levy.

Personal deductible contributions

From 1 July 2017, most people will be able to claim a tax deduction for personal super contributions, regardless of their employment status.

Like salary sacrifice, this strategy may enable you to boost your super tax-effectively. There are, however, a range of issues you should consider before deciding to use this strategy.

Your financial adviser can help you determine whether you should consider making personal deductible contributions instead of (or in addition to) salary sacrifice.

You may also want to ask your financial adviser for a copy of our super strategy card, called **'Make tax-deductible super contributions'.**

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