

FACT SHEET

Salary Sacrifice Arrangements

A salary sacrifice arrangement is where you enter into an agreement with your employer to forego part of your future salary or wages in return for another benefit. One of those arrangements is to salary sacrifice into superannuation.

What income can I salary sacrifice?

Salary sacrifice arrangements come from your future before tax income. The amount you sacrifice is up to you and your employer, and usually is set out in a contract.

What are the benefits of a salary sacrifice arrangement?

An effective salary sacrifice arrangement can reduce your overall taxation obligation by reducing your assessable income. However, the benefit you receive in exchange for the salary sacrifice agreement may have other taxation consequences. This fact sheet deals with salary sacrifice into superannuation - for more information on other arrangements see the Australian Taxation Office (ATO) website www.ato.gov.au.

Since money placed into a super fund as part of a salary sacrifice agreement comes from your pre-tax income, it is taxed on entry to the fund and is known as a Concessional Contribution. Provided all your Concessional Contributions are within the Concessional Cap, are contributed into a complying super fund and your taxable income is less than \$250,000 they will be taxed at a maximum rate of 15% instead

of your marginal income tax rates. Concessional Contributions relating to income in excess of \$250,000 will be taxed at 30%. Refer to the ATO website Division 293 Tax.

If you salary sacrifice into a complying super fund, the amount sacrificed is not a fringe benefit for tax purposes or subject to fringe benefits tax. They are however, reportable superannuation contributions.

Do salary sacrifice arrangements affect the super guarantee?

The Superannuation Guarantee (SG) rules make it compulsory for employers to contribute a minimum percentage (currently 9.5%) of an eligible employee's earnings base (ordinary time earnings) into superannuation. The minimum percentage is expected to increase to 12% progressively from 1 July 2021 (see our fact sheet The Super Guarantee).

Amounts sacrificed will reduce an employee's base earnings and therefore reduce the level of SG employers are obligated to pay. Both SG payments and salary sacrificed money are considered employer contributions. Therefore amounts sacrificed into super count towards your employer's SG obligations. Technically this means that a salary sacrifice arrangement can reduce the SG amount an employer has to contribute on your behalf. It is important to fully discuss the salary sacrifice position with your employer.

In making a salary sacrifice to super arrangement, the size of your salary



package, and therefore the total cost to the employer, should remain the same. However because your earnings base has been reduced, your employer's SG obligations are also reduced which may result in a decrease to your overall salary package. This can be avoided by setting up a contract stipulating the terms of the salary sacrifice arrangement. It may be worthwhile to arrange for your employer to reduce the amount they pay you in wages and the amount of tax paid on your behalf while increasing the employer super contribution by the same amount.

For example Joe earns \$50,000 before tax, and his SG contribution is \$4,750 making his total salary package \$54,750. Joe decides he wants to salary sacrifice \$5,250 to his super in addition to the SG payments he already receives. The total concessional contribution will be \$10,000.

In Joe's case:

- Joe's total salary package including super is still \$54,750.
- Joe's assessable income is reduced by \$5,250 and he therefore will pay less income tax.
- The employer's total super contribution on behalf of Joe is \$10,000 (note: this will be a concessional contribution), and
- Joe's employer's tax deductions will remain unchanged.

The benefits of a salary sacrifice into super come from increasing the employer contribution amount above the compulsory Superannuation Guarantee amount (see fact sheet 'Super Guarantee') without increasing the cost to the employer. However when you go into a salary sacrifice arrangement into super, it is important to make sure both you and your employer understand what the total employer contribution and the effects to your overall salary package will be.

How do I get a salary sacrifice arrangement?

Salary sacrifice arrangements are made between you and your employer on terms that both parties agree to. The agreement should be in writing.

Your employer is required to make SG contributions into your super fund at least four times a year. Where additional contributions to super are made, whether from your before or after tax income, they should be remitted to the fund within 28 days of the end of the month to which the contributions applied. (refer to fact sheet 'Employer Super Responsibilities')

Can I salary sacrifice into my spouse's super?

A salary sacrifice contribution directly into a spouse's super fund is a reportable fringe benefit and therefore may not be tax effective. It is possible to split contributions made to your fund under the superannuation splitting rules.

Super Co-Contribution

If you qualify for the super co-contribution, it may be worthwhile looking into making a personal (Non Concessional) contribution from your after tax income. As salary sacrifice into Superannuation is a reportable contribution, the amount sacrificed must be added back to income to determine eligibility to the Co-Contribution. For more information see the factsheet 'Super Co-Contributions'.

For information visit the ATO website at www.ato.gov.au

