

Salary sacrifice info sheet

You can pay money into your super from your after tax or before-tax salary. Salary sacrifice is when you and your employer agree for you to make these payments before tax is deducted.

Why salary sacrifice?

By having the money that goes into your super deducted from your before-tax pay you reduce your taxable income. This means you could pay less tax and take home more pay. Alternatively you could put the tax savings into your super by making an after-tax voluntary contribution or increasing the amount of money you put into your super before tax.

Your tax savings depend on how much you earn, and range from 0% for annual incomes that are less than \$6,000, up to 45% plus the Medicare levy for annual incomes of \$180,001 or more. Any tax savings could mean extra cash in your hand for now, or more in your super for retirement.

Make sure it's right for you

Salary sacrifice will reduce your tax bill if you earn more than \$37,000 each year. Saving income tax is great, but there are other things to consider when deciding to salary sacrifice. Read below for more information.

Contributions tax of 15% applies

Salary sacrificed contributions face the Australian Government's 15% contributions tax on entry to super.

In example 1 on the following page, Judith's 6% after-tax fortnightly superannuation contribution is \$115. This amount goes directly into her LGsuper account. In example 2 on the following page, Judith's 6% before-tax (salary sacrifice) fortnightly superannuation contribution is also \$115, however on entry into Judith's LGsuper account this amount will reduce by 15% in line with the contributions tax to \$97. So Judith will actually have less money go into her super account each fortnight unless she increases her contributions.

Increased standard member or compulsory contributions to offset the contributions tax

Some LGsuper members will need to increase their salary sacrifice standard member (or compulsory) contributions to

offset the 15% contributions tax. And some will not. Those who do are listed in the following table.

LGsuper members who need to increase	Standard member or compulsory contribution	Salary sacrifice standard member or compulsory contribution
LGsuper members with the Defined Benefits Fund	6%	7.05882%
LGsuper members with the Defined Benefit account (former City Super)	5%	5.88%
Brisbane City Council, Queensland Urban Utilities and other associated employees	5%	5.88%

Don't miss out on the super co-contribution!

Salary sacrificed contributions do not qualify for the super co-contribution of up to \$1,000 each year. But that doesn't mean you have to miss out! If your total annual income is less than \$61,920 (until 30 June 12) and you meet other eligibility requirements, you may benefit from making after-tax voluntary contributions instead of, or in addition to, salary sacrificing. See our examples above and the *Super co-contribution info sheet* for more details.

Limits apply

Money put into your super through salary sacrifice is treated as a concessional contribution for tax purposes. In addition to any restrictions your employer may apply, the Australian Government caps concessional contributions to \$25,000 each year if you're under age 50 (2011/12 financial year). Up to 30 June 2012, a higher \$50,000 limit applies for those aged 50 plus. Proposed changes from 1 July 2012 will mean over 50s with less than \$500,000 in super will continue to have a limit that is \$25,000 higher, while those with \$500,000 or

more will be capped at \$25,000, indexed each year. Exceeding these limits results in much higher tax rates and other drawbacks.

Tax free from age 60, but tax may apply before then

Salary sacrificed amounts may be taxed if you access them before age 60. After-tax voluntary contributions are tax-free.

How does salary sacrifice work?

The examples below show the effect salary sacrifice could have on Judith, a permanent Moreton Bay Regional Council employee who earns \$50,000 each year (\$1,923 per fortnight before tax). See the following page for explanations.

EXAMPLE 1 Paying super from after-tax salary Standard member contribution only		EXAMPLE 2 Paying super from before-tax salary (salary sacrifice) Standard member contribution only	
\$		\$	
Gross fortnightly salary	1,923	Gross fortnightly salary	1,923
- PAYG tax	358	- 6% standard member contribution	115
- voluntary salary sacrifice	0	- voluntary salary sacrifice	0
- 6% standard member contribution	115	- PAYG tax	321
- After tax voluntary contribution	0	- After tax voluntary contribution	0
Take-home fortnightly salary	1,450	Take-home fortnightly salary	1,487
Take-home annual salary	37,700	Take-home annual salary	38,662
Total annual amounts added to super. Breakdown below:	3,387	Total annual amounts added to super. Breakdown below:	2,541
Government super co-contribution	397	Government super co-contribution	0
Member and voluntary contributions from after-tax pay	2,990	Member and voluntary contributions from before-tax pay	2,541
EXAMPLE 3 Paying super from before and after-tax salary Before tax standard member contribution and after-tax voluntary contribution to receive the super co-contribution		EXAMPLE 4 Paying more into super from before (salary sacrifice) and after-tax salary Before tax standard member and voluntary contributions and after-tax voluntary contributions. Same take-home pay as example 1, but more super!	
\$		\$	
Gross fortnightly salary	1,923	Gross fortnightly salary	1,923
- 6% standard member contribution	115	- 6% standard member contribution	115
- voluntary salary sacrifice	0	- voluntary salary sacrifice	30
- PAYG tax	321	- PAYG tax	311
- After tax voluntary contribution	15	- After tax voluntary contribution	15
Take-home fortnightly salary	1,472	Take-home fortnightly salary	1,452
Take-home annual salary	38,272	Take-home annual salary	37,752
Total annual amounts added to super. Breakdown below:	3,321	Total annual amounts added to super. Breakdown below:	3,984
Government super co-contribution	390	Government super co-contribution	390
Standard member and voluntary contributions made from before and after-tax pay	2,931	Standard member and voluntary contributions made from before-tax pay, plus after-tax voluntary contributions	3,594

Examples explained

Judith is a permanent Moreton Bay Regional Council employee. She earns \$50,000 each year, which is a fortnightly income of \$1,923 before tax. Judith does not have a higher-education studies debt and does not have any other salary sacrifice arrangements in place. Because Judith's total annual income is less than \$61,920 she could receive the Australian Government super co-contribution to help boost her super savings. So how will salary sacrifice affect Judith's pay and how much extra could she add to her super? See the examples in the tables on the previous page to find out.

By salary sacrificing her standard member contributions, Judith brings home an additional \$37 each fortnight or \$962 each year (see example 2). Imagine how much Judith's super would grow over the years if she redirected this small savings into her LGsuper account. By paying super from a combination of before and after-tax pay (example 3), Judith will take home more pay than she would otherwise have (see Judith's take home pay in example 1). She'll also receive a super co-contribution amount of \$390.

Judith could also consider making a higher before-tax superannuation contribution and a small after-tax voluntary contribution (see example 4) and take home not only the same fortnightly pay she would have taken home had she not salary sacrificed (see Judith's fortnightly take-home pay in example 1) but also a little more super. And every little bit extra Judith puts in now could make a big difference to the type of lifestyle she has in retirement.

The examples we use in this info sheet are straightforward to help simply explain the concept of salary sacrifice. We understand your situation might be very different. Please call us for information relating to your specific circumstances.

It sounds great, can anyone do it?

You'll need to check with your employer. Most employees can salary sacrifice super contributions but you will need to check your workplace bargaining agreement or individual employment contract before making any arrangements. Your payroll area could help you further.

What's next?

LGsuper is a \$6 billion super fund representing more than 90,000 members. We're passionate about giving you the personal service you want and can show you the impact salary sacrifice and after-tax contributions could have on your pay and super. Contact us on 1800 444 396 or visit www.lgsuper.org to have your questions answered.

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