

Is salary sacrificing a good way to boost your Super?

Prepared by Certainty Financial – advisers to your employer superannuation plan

Salary sacrificing can be tax effective

Most employees are receiving superannuation contributions from their employer, usually 9% of salary. Adding to these contributions by sacrificing some of your gross salary could be an easy, tax-effective way of topping up your super on a regular basis.

Salary sacrifice is where you re-direct or 'sacrifice' some of your gross salary and have your employer pay the equivalent pre-tax amount into super for you. For example, suppose you earn \$86,000 before tax. Rather than taking the entire \$86,000 as cash salary, you elect to take \$81,000 as salary and instruct your employer to pay the remaining \$5,000 into super.

You could 'sacrifice' \$5,000 each year pre-tax and invest it via your super, as opposed to taking it as salary, paying the tax, and then depositing what is left into an investment outside of super. The chart below illustrates the differences between a super and non-super investment. The assumptions are the same for both types of investments and for the sake of comparison both assume a 6% per annum investment return.

If your investment continued to deliver 6% per annum for 15 years, investing in super would deliver \$28,318 more than what you would have achieved if you had invested outside super that year. Obviously, if either rate of return was higher, the outcome would differ.

In 2011/2012 total concessional contributions including your own salary sacrifice contribution and those from your employer, cannot exceed \$25,000 per annum (or \$50,000 for those aged 50 to 74). Seek advice if you believe this may impact your tax position.

This idea might be good in theory but is it right for you?

Certainty Financial is the appointed advisory firm to your fund. We can help with questions such as: Do you qualify for the Government co-contribution scheme and what type of contributions should you make? How much should you be putting aside for your retirement? Is it better for you to invest inside or outside of super?

For assistance, contact:

Certainty Financial 1800 680 141

Note:

The Government co-contribution scheme is another means of adding to your superannuation. The maximum co-contribution is \$1,000 and is available in full to those on incomes of \$31,920 or less who make after-tax contributions to their super. The maximum co-contribution is reduced for every dollar of income earned over \$31,920 up to \$61,920, at which point the co-contribution phases out completely.

A legislation change from 1 July 2009 altered the definition of 'income' which affects individuals who make both salary sacrifice contributions and non-concessional contributions in order to qualify for the co-contribution. Reviewing your strategy is recommended.

	Outside super	Inside super	Financial benefit
Gross Amount Invested each year	\$5,000	\$5,000	–
Net Amount Invested After tax	\$3,150	\$4,250	\$1,100
Value of Investment after year 1	\$3,236	\$4,358	\$1,122
Value of Investment after year 10	\$42,809	\$62,243	\$19,434
Value of Investment after year 15	\$75,759	\$104,077	\$28,318

This chart assumes pre-tax returns of 6% pa (4% income, 2% capital growth). Marginal tax rate is 37%. Medicare & flood levy not included. These calculations do not take CGT into consideration. Results not adjusted for inflation. This chart is for illustration purposes only and may not represent actual returns. Ref: www.ato.gov.au

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