

# Salary sacrifice



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AMIST Super Hotline **1800 808 614**

**Salary sacrifice is a great way to help your super savings grow and potentially reduce your income tax at the same time.**

Rather than taking your entire pay in cash, your employer may allow you to have an amount paid into your super. When you do that, the contribution you make is taxed at only 15%, which could be less than your normal rate of tax. And by putting some of your before-tax pay into super, your income is reduced. And this could mean that the amount of tax you pay on that income may reduce too.

It's important to remember that salary sacrifice will reduce your take home pay. But depending on your circumstances, it can be a very tax-effective way to increase your super.

However, salary sacrifice is not for everyone. Low and middle income incentives and rebates for spouse contributions, for example, may mean that salary sacrifice is a less effective option. There are also limits on the before-tax contributions that can be made. See page 4 of this *Fact Sheet* for details.

You may also qualify for the Government Co-contribution scheme (see page 4 of this *Fact Sheet*), which may also affect your additional contribution decisions.

What's best for you will depend on your individual circumstances and you should get some financial advice before deciding to use salary sacrifice.



## So, let's see how it could work.

John is 35 years old, has \$40,000 in super and earns \$50,000. If John decides to redirect \$20 per week (\$1,040 pa) of his pay through salary sacrifice, he will save \$359 pa in income tax with the extra money going into his super fund. John's take home pay will be reduced by approximately \$12.80 per week or \$665 per year.

	No salary sacrifice	With salary sacrifice
Before-tax pay	\$50,000	\$50,000
Salary Sacrifice into Super	Nil	-\$1,040
<b>New Before-tax pay</b>	<b>\$50,000</b>	<b>\$48,960</b>
PAYG tax and Medicare levy	-\$8,797	-\$8,438
Less Low and Middle Income Tax Offset (LaMITO)	\$530	\$530
Less Low Income Tax Offset (LITO)	\$250	\$266
<b>Take-Home Pay</b>	<b>\$41,983</b>	<b>\$41,318</b>
<b>Additional money into Super</b>		
Salary Sacrifice*	Nil	\$884
<b>Benefit and Savings</b>		
<b>Total net benefit</b>	<b>\$41,983</b>	<b>\$42,202</b>
<b>Overall saving from strategy</b>	<b>\$219</b>	

\* Net of 15% contributions tax paid upon entry to the Super fund.

*Note: The above calculations do not take into consideration SGC payments or any potential tax offsets.*

John is better off by \$219 each year that he has the salary sacrifice arrangement in place. This may not seem like much now but over the next 32 years the difference will be substantial. In fact, we estimate that John will be better off by \$53,595 (in today's dollars) at age 67 when he retires. And that's just by adding \$20 per week. Imagine what he could save if he increased his contributions to super with each pay rise!

## Are there benefits for people earning less than \$50,000?

For people with incomes ranging from \$35,000 to \$49,000 there is no simple solution. They can optimise their position by combining a number of strategies which include salary sacrifice, personal after-tax contributions and a potential Government Co-contribution. These can offer benefits, but it is best to get advice. Let's look at another example to see how this could work using a combination of options.

Mary is 30 years old, has \$30,000 in super and earns \$40,000. She wants to contribute \$20 each week (\$1,040 pa). In order to optimise her access to the Government's Co-contribution and still get some tax benefits, she decides to contribute \$289 in salary sacrifice and \$846 in after-tax contributions. This combination means that she will get the maximum Co-contribution that she is entitled to of \$423 and she will also reduce the tax she pays.

	No salary sacrifice	With salary sacrifice
Before-tax pay	\$40,000	\$40,000
Salary Sacrifice into Super	Nil	-\$289
<b>New Before-tax pay</b>	<b>\$40,000</b>	<b>\$39,711</b>
PAYG tax and Medicare levy	-\$5,347	-\$5,247
Less Low and Middle Income Tax Offset (LaMITO)	\$290	\$281
Less Low Income Tax Offset (LITO)	\$400	\$404
After-tax super contributions	Nil	-\$846
<b>Take-Home Pay</b>	<b>\$35,343</b>	<b>\$34,303</b>
<b>Additional money into Super</b>		
Salary sacrifice*	Nil	\$246
After-tax super contributions	Nil	\$846
Government Co-contribution	Nil	\$423
<b>Benefit and Savings</b>		
<b>Total net benefit</b>	<b>\$35,343</b>	<b>\$35,818</b>
<b>Overall saving from strategy</b>		<b>\$475</b>

\* Net of 15% contributions tax paid upon entry to the Super fund.

*Note: The above calculations do not take into consideration SGC payments or any potential tax offsets.*

Mary is better off by \$475 each year that she has this arrangement in place. It is estimated that she will be better off by \$79,490 (in today's dollars) when she retires at age 67.

### Government Co-contribution Scheme

The Government Co-contribution is a scheme where the Government will contribute up to 50c for every \$1 that you put into your super from your after-tax pay. Certain eligibility and income restrictions apply. For full details, see the Co-contribution Fact Sheet which is available on our website.

### Are there limits to the amount you can contribute?

Yes there is. Currently the cap is \$100,000 of after tax contributions and \$25,000 of before tax contributions (including employer contributions) for individuals, to age 65. Contributions can be made after age 65 to 74, if you meet the work test. If you exceed that amount, the excess contributions will be taxed at your personal marginal tax rate. The extra amount will also be included in your limit for after-tax (non-concessional) contributions (see the Contributions Fact Sheet at [www.amist.com.au](http://www.amist.com.au) for more information).

### How do I get started with salary sacrifice contributions?

You should talk to your employer. Some employers do not allow salary sacrifice, while others apply conditions. For example, an employer may allow you to salary sacrifice and reduce your taxable income – but you may then have your Superannuation Guarantee and other entitlements based on this new, lower income. Please check with your employer if you are thinking about making contributions to AMIST Super via salary sacrifice. Another option is to make the contributions directly into superannuation and then notify your superannuation fund using an Intent To Claim form. The form is available from the Australian Taxation Office website.

### Get some advice

Call the **AMIST Super Hotline** on **1800 808 614** to get some advice on how much you can salary sacrifice in order to maximise your retirement benefit. If you haven't called us to seek advice before, please take the time to use this service now. This advice won't cost you extra. It's all included as part of your AMIST Super membership.

\*Limits are correct for the 2018/19 financial year after which the government has indicated that the thresholds may be indexed. The limits are published on the Australian Taxation website ([www.ato.gov.au](http://www.ato.gov.au)) under "Concessional contributions cap." Or you can contact the ATO on telephone 13 10 20.

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