SALARY SACRIFICE FACT SHEET

(before-tax contributions)

ENERGYSUPER PUTTING THE ENERGY INTO SUPER

An Industry SuperFund

WHO SHOULD READ THIS FACT SHEET?

The information in this fact sheet is provided for all members of Energy Super who are thinking about making salary sacrifice contributions.

WHAT IS SALARY SACRIFICE?

Salary sacrifice is an arrangement between an employee and an employer whereby the employee chooses to forgo (or sacrifice) part of their salary as income, and instead has it paid into superannuation as a before-tax contribution, or towards another approved salary sacrifice arrangement.

There are certain requirements for making a valid salary sacrifice arrangement. For example, the arrangement must be for your future earnings rather than any salary, wages or entitlements you have already earned. You cannot include any annual or long service leave you have accrued before entering into the arrangement and the sacrificed salary must be inaccessible for the period of the arrangement.

HOW DOES IT WORK?

The process by which salary sacrificing to super works is:

- an employee chooses to forgo an amount of their salary and have it paid into super instead;
- the employee's before-tax income is reduced by this amount;
- this amount is paid into super as an employer-paid contribution, referred to as a concessional contribution; and
- as the contribution is a concessional contribution, it is subject to 15% contributions tax on entry to the Fund. An additional tax, known as Division 293 tax, may be payable by high income earners. See the **How are salary sacrifice contributions taxed?** section for more information.

WHAT ARE THE BENEFITS OF SALARY SACRIFICING?

Depending on your personal financial situation you may pay less tax and have more take-home pay than if you were making after-tax contributions. Superannuation contributions are generally taxed at a lower rate than your salary. Therefore, by diverting part of your salary to your super before tax is calculated and deducted, you may pay less tax on that amount.

Saving for your first home

The Australian Government's First Home Super Saver (FHSS) Scheme is designed to help first home buyers save money faster to purchase their first home.

The FHSS Scheme allows you to save money for a first home by making voluntary contributions including salary sacrifice (before-tax), and non-concessional (after-tax) contributions, into your super fund.

Any voluntary contributions made from 1 July 2017 along with associated earnings may be released up to a maximum of $15,000 for any one financial year and $30,000 in total across all years to help you purchase your first home.

For more information see the *How Super Works* Guide available at **energysuper.com.au**

IS THERE ANY DOWNSIDE TO SALARY SACRIFICING?

Depending on your situation, some of the potential downfalls of salary sacrificing super contributions could include:

- As contributions tax is deducted from these contributions, members in super schemes that are required to contribute a specified percentage of their salary may need to increase their before-tax contribution to ensure the final contribution amount in their super account is correct.
- Certain Government benefits and taxes are calculated on an adjusted income amount which may include salary sacrifice super contributions as income. This means that while the taxation on your salary may be reduced if you salary sacrifice, the cut off levels for certain benefits are based on the pre salary sacrifice income amount, not on taxable income. These benefits include the Government co-contribution and some family tax benefits.
- Your contributions are preserved in the superannuation system until you permanently retire after reaching your preservation age or satisfy another condition of release.
- You may pay extra tax if your salary sacrifice contributions result in your total concessional contributions exceeding your cap for the year (see **Concessional contributions cap**).
- As salary sacrifice contributions are concessional contributions they will not be eligible for the Government co-contribution.

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CONCESSIONAL CONTRIBUTIONS CAP

For the 2020/21 financial year, your total concessional contributions are subject to the general cap of $25,000*, regardless of your age.

The annual concessional contributions cap will be indexed to the average weekly ordinary time earnings (AWOTE) and rounded down to the nearest multiple of $2,500. This means that indexation may not apply every year.

You need to consider whether the amount of salary sacrifice contributions you want to make, in addition to your employer's contributions to super, will put you over this concessional contributions cap. Contributions that go over the cap will generally be included in your assessable income with a 15% tax offset and subject to tax at your marginal tax rate. You will also be liable for an interest charge. To assist you with understanding your concessional (before-tax) contribution caps, refer to our *How Super Works* Guide available at **energysuper.com.au**

** Individuals with a "Total Superannuation Balance" less than $500,000 (just before the start of the financial year) will be able to make catch up concessional contributions on unused portions of the cap for the previous 5 years. An individual can carry forward unused concessional contributions from 2018/19 onwards, which means the first year in which an unused contributions amount can be contributed was the 2019/20 year.*

HOW ARE SALARY SACRIFICE CONTRIBUTIONS TAXED?

A contributions tax of 15% is deducted when salary sacrifice contributions are received by Energy Super.

An additional tax, known as Division 293 tax, may reduce the tax concession on certain contributions made by, or for, high income earners.

You will generally be liable to pay Division 293 tax if the sum of your income and your low tax contributions is greater than $250,000 in the financial year.

Division 293 tax will be charged at 15% of your taxable concessional contributions above the $250,000 threshold.

For more information on Division 293 tax, visit the ATO website at **ato.gov.au**

If you exceed the concessional contribution caps in any given year, your excess contributions will generally be included in your assessable income with a 15% tax offset and subject to tax at your marginal tax rate.

When you are paid a superannuation benefit, your payment may be split into two components; (a) a tax-free component and (b) a taxable component. After-tax superannuation contributions become part of the tax-free component and no tax is paid on this portion on withdrawal. However, salary sacrifice contributions become part of the taxable component and tax may be paid on this portion on withdrawal. The tax rate (if any) depends on your age and residency status.

Please refer to the *How Super Works* Guide for further details.

CAN I SALARY SACRIFICE INTO ENERGY SUPER?

This will depend on your age and whether you have met the "work test" or are eligible for an exemption before making the contribution. To meet the work test, you must have worked at least 40 hours within a 30 consecutive day period, for each financial year in which you wish to contribute. To be eligible for the exemption your total superannuation balance must be less than $300,000 and you make the contribution with 12 months of the last financial year you met the work test.

Age	Can salary sacrifice contributions be accepted?
Under 67	Yes
67 – 74	Yes, if you meet the work test or are eligible for an exemption
75 or more	No, unless you meet the work test and the contribution is received by the Fund no later than the 28th day after the end of the month in which you turned 75

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CASE STUDY

Jane's gross annual salary is $65,000 and she contributes 5% of her salary ($3,250) to her Energy Super account from her after-tax pay. Her net income, after-tax and super deductions, is currently $47,803. Jane's employer will allow her to make salary sacrifice super contributions and confirmed they will make a $6,175 (9.5%) super contribution on her behalf.

As shown in the table, if Jane were to make her $3,250 contribution by way of salary sacrifice instead, she would increase her after-tax income and would be $683 better off overall.

Alternatively, if Jane was happy with her current $47,803 after-tax income she could increase her salary sacrifice contributions to $5,078 and would save $1,066 more in super each year than she does now.

Jane's income and super contributions 2020/21	After-tax contribution	Before-tax contribution (salary sacrifice)	
	Current situation	Same contribution amount	Same after - tax income
INCOME			
Gross salary	$65,000	$65,000	$65,000
Less salary sacrifice super contribution	$0	- $3,250	- $5,078
Taxable income	$65,000	$61,750	$59,992
Less after-tax super contribution	- $3,250	$0	$0
Less tax* and Medicare levy	- $13,947	-$12,777	-$12,119
Net income (A)	**$47,803**	**$48,973**	**$47,803**
SUPERANNUATION			
Employer contributions (including salary sacrifice)	$6,175	$9,425	$11,253
Less 15% contributions tax	-$926	-$1,414	-$1,688
Personal contributions (after-tax)	$3,250	$0	$0
Net super (B)	**$8,499**	**$8,011**	**$9,565**
Net income plus net super (A + B)	**$56,302**	**$56,984**	**$57,368**
Improvement on current situation		**$683**	**$1,066**

***Please note:** *Calculations are based on tax rates for the 2020/21 financial year. Jane has no other income or tax deductions, her only tax offset is the low income tax offset and she is not liable for Medicare levy surcharge. This case study is general in nature and is provided for illustrative purposes only. The benefits of making salary sacrifice contributions will differ between individuals and any changes in circumstances or assumptions may change the outcome.*

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HOW DO I START A SALARY SACRIFICE ARRANGEMENT?

Salary sacrifice contributions provide benefits for many members, but it depends on your own personal circumstances. You also need to check with your employer to find out if they offer salary sacrifice arrangements, if it will affect the contributions they make for you, and what paperwork is required to start. Your employer may set limits on how much you can salary sacrifice.

Energy Super has licensed financial advisers available to discuss your salary sacrificing arrangements at no extra cost but you should consult a tax agent before making any final decisions.

For more information about salary sacrifice visit the ATO's website at **ato.gov.au**

We're here to help – Call **1300 436 374**
Email **info@energysuper.com.au** or visit **energysuper.com.au**

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