

Strategy Brief

Strategy	Salary sacrifice a bonus to superannuation
What is involved?	Instead of receiving a bonus from your employer as cash in hand, you instruct your employer to contribute it to your superannuation account.
Why it works	<p>Every dollar that you earn over \$30,000 will be taxed at 31.5%, over \$75,000 at 41.5% or over \$150,000 at 46.5%. If you salary sacrifice part of your salary to superannuation, it will be taxed at a maximum of 15%.</p> <p>Within super it accumulates wealth at a faster rate because:</p> <ul style="list-style-type: none"> ✓ You have a larger amount of capital working for you. ✓ The investment earnings are taxed at a lower tax rate (maximum of 15%).
Who can benefit from implementing this strategy?	<p>Employees that:</p> <ul style="list-style-type: none"> ✓ Receive a bonus ✓ Have a salary greater than \$30,000pa;
Issues to be aware of	<ul style="list-style-type: none"> ■ You lose access to money salary sacrificed to super until you are aged between 55 and 60 (depends on your date of birth) and you may also need to be retired. ■ You must put the arrangement in place before you get the bonus. ■ Only \$50,000pa can be contributed to super by your employer (however if you are aged over 50 you can contribute up to \$100,000 for a limited time). ■ The Australian Government can change the rules that govern super.
Related strategies	<p>This strategy may affect other strategies such as:</p> <ul style="list-style-type: none"> ■ A regular salary sacrifice to super strategy (contribution limits);
Our advice will ensure that:	<ul style="list-style-type: none"> ■ The arrangement with your employer is set up correctly. ■ You do not exceed the contribution limits. ■ The money in your superannuation account is invested in a strategic manner. ■ Investment returns are not reduced by unnecessary fees, tax or commissions.

Case Study

Jack earns \$90,000pa and anticipates receiving a bonus of \$20,000 this financial year.

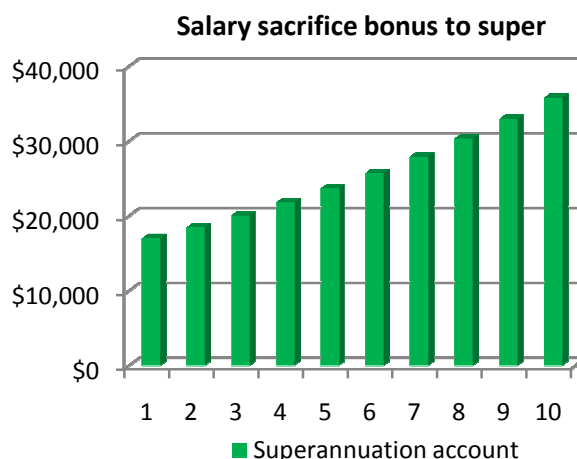
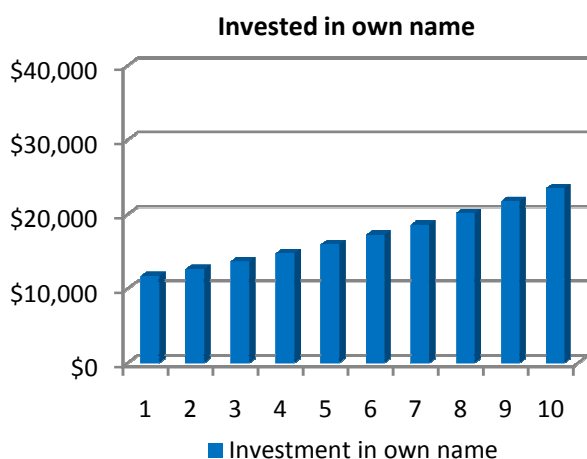
Jack instructs his employer to have any bonus paid directly into his super fund rather than receiving the money as cash salary. As a result, he has \$5,300 to invest as illustrated below:

Assessable income	Bonus as after-tax salary	Bonus as salary sacrifice
Pre-tax bonus	\$20,000	\$20,000
Less 41.5% income tax	(\$8,300)	(\$0)
Less 15% contributions tax	(\$0)	\$3,000
Net amount to invest	\$11,700	\$17,000
Additional amount to invest		\$5,300

If Jack invests the net amount of \$11,700 in his own name, the investment earnings will be taxed at his marginal tax rate, whereas in super they will be taxed at a maximum of 15%.

The difference between these two options is illustrated in the graphs below:

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After 10 years the investment held in Jack's own name is valued at \$23,500 and his superannuation account is valued at \$35,750.

The investments held in each account are identical; the only thing that is different is how much tax Jack has paid. The longer that this investment is held, the wider the gap between the two options as illustrated in the table below:

Time frame	Invested in own name	Bonus salary sacrifice	Difference between the two options
5 years	\$16,000	\$23,500	\$7,500
10 years*	\$23,500	\$35,750	\$12,250
15 years	\$34,500	\$54,000	\$19,500
20 years	\$51,000	\$81,750	\$30,750
30 years	\$110,750	\$187,000	\$76,250

*illustrated above

The difference after 30 years is \$76,250 but this is only one bonus payment that Jack has dealt with. What about if he salary sacrificed his bonus every year? Assuming that he earned a \$20,000 bonus every year for the first 10 years, here is the difference between the two scenarios:

Time frame	Invested in own name	Bonus salary sacrifice	Difference between the two options
5 years	\$72,500	\$107,000	\$34,500
10 years	\$191,000	\$285,000	\$94,000
15 years	\$281,750	\$431,000	\$149,250
20 years	\$415,000	\$651,500	\$236,500
30 years	\$901,000	\$1,490,000	\$589,000

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Assumptions:

Total return of 9.0%pa in both scenarios (income return of 3.5%pa; growth return of 5.5%pa)
Jack also receives 9%pa superannuation guarantee from his employer; this has not been included in this projection.
Income is 25% franked
20% of the growth return is taxed due to rebalancing of asset allocation.