

Strategy Brief

Strategy	Salary sacrifice to superannuation
What is involved?	Instead of having your salary debited to your bank account, you instruct your employer to make additional contributions 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>You will accumulate wealth at a faster rate because:</p> <ul style="list-style-type: none"> ✓ You pay less personal income tax. ✓ 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"> ✓ Have surplus income of at least \$1,200 per annum (\$100 per month); ✓ Have a salary greater than \$30,000pa; or ✓ Have realised a large capital gain; or ✓ Earn bonuses; or ✓ Earn passive income from other investments such as shares and property.
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 can only salary sacrifice future income and bonuses. ■ Benefits such as leave loading, holiday pay and SGC may be affected. ■ 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>If implementing this strategy, also refer to the following strategy briefs:</p> <ul style="list-style-type: none"> ■ Government Co-Contribution strategy ■ Capital gains tax minimisation strategies ■ Transition to Retirement Pension strategy ■ Converting home loan to interest only strategy ■ Age 50 increased contribution cap strategy
Our advice will ensure that:	<ul style="list-style-type: none"> ■ You know exactly how much to salary sacrifice each year to maximise benefits. ■ You have access to capital for expenses when you need it. ■ You benefit from other related strategies. ■ 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 has surplus income of \$5,000pa. Jack understands that by salary sacrificing to superannuation he will lose access to his money until he is aged 60 and retired and will consider using half of his surplus income (\$2,500pa) for this strategy.

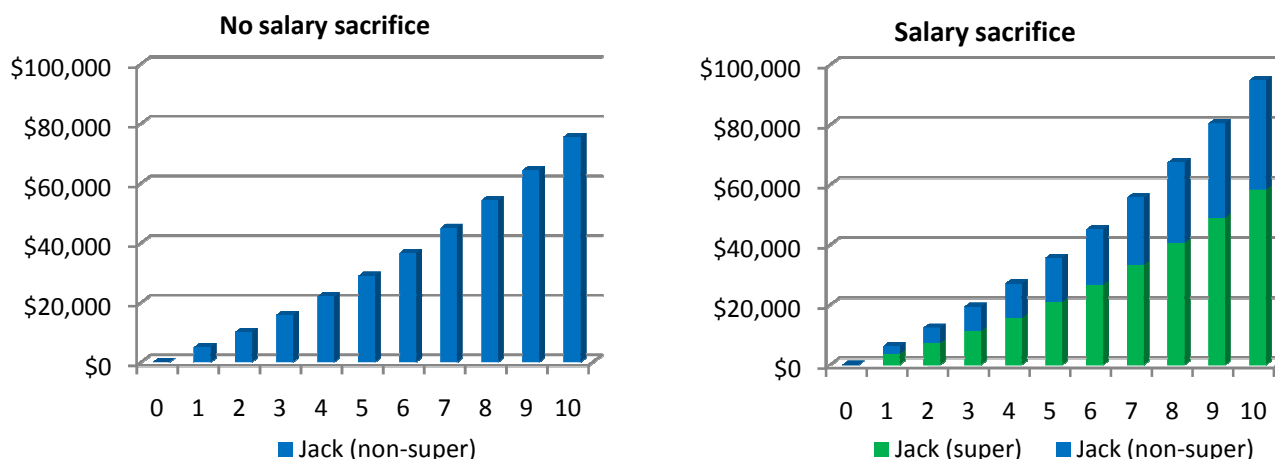
Jack has asked us to illustrate the results over the next 10 years of investing his surplus in his own name compared to investing half of it in his own name and the other half to salary sacrifice to super.

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Results:

If Jack invests all of his surplus income into an investment that earns 9%pa in his own name, it will be worth \$75,500 in ten years time.

Alternatively, if half of his surplus (\$2,500pa after tax) is invested in his own name and the rest salary sacrificed, the value of Jack's portfolio is \$94,700. Jack is \$19,200 better off after 10 years by implementing this strategy as illustrated in the graphs below.



The assumed investment returns on Jack's non-super investment and his super account are exactly the same, so the difference is a result of the amount of tax Jack pays to the Australian Taxation Office. The table below details the amount of tax Jack pays personally and within his superannuation account over the first three years.

Personal income tax and super tax payable	1	2	3
No salary sacrifice	\$24,450	\$25,174	\$26,031
Salary sacrifice	\$23,318	\$24,157	\$24,933
Extra amount available to invest	\$1,132	\$1,017	\$1,098

In the first three years Jack pays \$3,247 less in tax by implementing this strategy and over the ten year period, he pays \$14,000 less in tax. The difference between the two strategies is \$19,400 and whilst \$14,000 is due to paying less tax, the other \$5,400 is the compounding investment returns on the annual tax savings.

Other projection results for you to consider:

- In year one Jack will salary sacrifice \$4,274 (which is the equivalent of \$2,500 before tax).
- The difference between the two strategies after 20 years is \$81,600.
- Jack pays \$47,800 less in tax after 20 years.
- If Jack had salary sacrificed all of his surplus income to super, he would be \$142,600 better off compared to the no salary sacrifice option.

For more information call Matthew Ross on (03) 8862 6415 or email enquiries@aifa.com.au

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.