

■ Who should read this Fact sheet?

The information in this Fact sheet is provided for all members of ESI Super who are looking at making salary sacrifice contributions. To assist members, ESI Super has prepared this Fact sheet which explains what salary sacrifice is, the potential effects of salary sacrifice and what conditions must be met to qualify.

■ 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.

■ 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 if your employer agrees
- 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 (see back page for details)
- As the contribution is a concessional contribution, it is subject to 15% contributions tax on entry to the Fund

■ What are the benefits of salary sacrificing?

Depending on your personal financial situation you may pay less tax resulting in either increased take home pay or increased super 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.

■ Is there any downside to salary sacrificing?

As a 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.

Salary sacrifice contributions will be shown as Reportable Employer Superannuation Contributions (RESG) on the Payment Summary your employer provides you and the ATO at the end of each financial year.

Although it is uncommon, some employers may reduce the superannuation contributions they pay by calculating their contributions based on your reduced salary (after sacrifice).

Your contributions are preserved in the superannuation system until you permanently retire 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 limit").

As salary sacrifice contributions are concessional contributions they will not be eligible for the Government co-contribution.

■ Concessional contributions limit

Salary sacrifice contributions count towards your concessional contributions limit of \$25,000 per year. This limit will be indexed in line with Average Weekly Ordinary Time Earnings (AWOTE). For people aged 50 or over, there is also a transitional period available until 30 June 2012, which allows the annual limit to be increased to \$50,000. This limit is not indexed.

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 limit. Contributions that go over the limit are subject to much higher levels of tax. To assist you with understanding your concessional (before tax) contribution limits, you can view more fact sheets or use a contributions calculator on our website at www.esisuper.com.au. Simply type "Contributions" into the search window on the home page and follow the links.

■ How are salary sacrifice contributions taxed?

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

If you exceed the concessional contribution limits in any given year, your excess contributions will be taxed at a rate of 31.5%. This is in addition to the 15% superannuation contribution tax, which makes a potential tax liability of 46.5%. The excess contributions will also count towards the annual non-concessional contribution limit of \$150,000 (six times the concessional contribution limit).

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 Tax and your super: the facts Fact sheet for further details.

■ Can I salary sacrifice into ESI Super?

This will depend on your age and whether you have met the “work” test before making the contribution. To meet the work test you must have worked at least 40 hours within 30 consecutive days in each financial year in which you wish to contribute.

Age	Can personal after tax and salary sacrifice contributions be accepted?
Under 65	Yes
65 – 74	Yes, if you meet the work test
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

■ 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 should talk to a licensed financial adviser and/or tax agent before making any decisions about salary sacrificing. 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.

Case study

Jane’s gross annual salary is \$50,000 and she contributes 5% of her salary (\$2,500) to her ESI Super account from her after tax pay. Her net income, after tax and super deductions, is currently \$38,450. Jane’s employer will allow her to make salary sacrifice super contributions and confirmed they will not reduce the \$4,500 super contributions they make on her behalf if she does so.

As shown in the table below, if Jane were to make her \$2,500 contribution by way of salary sacrifice instead, she would increase her after tax income and would be \$513 better off overall. Alternatively, if Jane was happy with her current \$38,450 after tax income she could increase her salary sacrifice contributions to \$3,875 and would save \$794 more in super each year than she does now.

Please note: Calculations are based on tax rates for the 2009-10 financial year. The benefits of making salary sacrifice contributions will differ between individuals. You should consult a qualified financial adviser before making any decision to salary sacrifice.

**Jane has no other income or tax deductions and her only tax offset is the Low income tax offset.*

Jane’s Income & Super Contributions 2009/10	After tax contribution	Before tax contribution (salary sacrifice)	
	Current situation	Same contribution amount	Same after tax income
INCOME			
Gross salary	\$50,000	\$50,000	\$50,000
Less salary sacrifice super contribution	\$0	-\$2,500	-\$3,875
Taxable income	\$50,000	\$47,500	\$46,125
Less after tax super contribution	-\$2,500	\$0	\$0
Less tax and medicare levy*	-\$9,050	-\$8,162	-\$7,675
Net income after tax and super deduction (A)	\$38,450	\$39,338	\$38,450
SUPERANNUATION			
Employer contributions (including salary sacrifice)	\$4,500	\$7,000	\$8,375
Less 15% contributions tax	-\$675	-\$1,050	-\$1,256
After tax personal contributions	\$2,500	\$0	\$0
Net increase in super after tax (B)	\$6,325	\$5,950	\$7,119
Net income and super after tax (A + B)	\$44,775	\$45,288	\$45,569
Improvement on current situation		\$513	\$794

More information

Call us on **1300 363 240**. Email us at super@esisuper.com.au or visit esisuper.com.au

Disclaimer

This Fact sheet has been prepared for the general information of members of ESI Super. It does not take into account any member’s individual financial objectives, financial situation or needs. Any statements of law or proposals are based on our interpretation of the law or proposals as at 7 January 2010. We recommend that you seek help from a licensed financial adviser before acting on any information contained in this fact sheet. While all due care and diligence has been taken in the preparation of this fact sheet, the terms of the trust deed prevail. Electricity Supply Industry Superannuation (Qld) Ltd (ABN 30 069 634 439 AFSL 336567) is the Trustee for the Electricity Supply Industry Superannuation Fund (Qld) (ABN 33 761 363 685).