



What is salary sacrifice?

Salary Sacrificing is a way of making contributions to your super account before income tax is paid and, depending upon your income, is generally one of the most tax effective ways for you to make superannuation contributions. However, it is not appropriate for all members and you should seek advice from your accountant or financial adviser that it will provide you with some financial advantages before commencing a salary sacrifice arrangement with your employer.

The arrangement with your employer is that you agree to forgo part of your future before tax salary from your employer from a predetermined date on the basis that this part of your salary will be paid as a superannuation contribution to your superannuation account instead of having it paid to you as salary by your employer.

This generally means that your taxable income will reduce and you will pay less income tax on your reduced salary, but as the salary sacrifice contributions are considered to be employer contributions by the ATO they are subject to a 15% contributions tax on receipt by the super fund and subject also to the annual concessional contributions limits that apply to you.

How does it work?

The following is a simple example showing how salary sacrificing contributions to a superannuation accumulation account works.

Bill is an administration officer who has an accumulation account only in the Fire and Emergency Services Superannuation Fund (FES Super) and earns \$100,000 a year. He wants to boost his retirement savings but he's not sure how much he can afford and whether he should make before-tax or after-tax voluntary contributions. Bill talks to a financial adviser who reviews his cash flow and calculates that Bill can afford to put an extra \$5,000 a year into super. But should he pay this before or after tax?

The adviser's calculations show that salary sacrifice gives Bill the best outcome. This is because salary sacrificing \$5,000 into super reduces Bill's taxable salary by this amount, which gives him an extra \$1,625 in his pay packet (\$73,658 rather than \$72,033). Although contributions tax of 15% is deducted from Bill's salary sacrifice contribution (giving him an actual super contribution of \$4,250), the table below shows that salary sacrificing still gives Bill the best outcome.

In addition, the investment earnings from his super will be taxed at a maximum rate of 15%. However, investment earnings outside super will be taxed at Bill's marginal tax rate of 32.5% (plus Medicare levy).

	Salary Sacrifice	After-tax contribution
Gross salary	\$100,000	\$100,000
Less salary sacrifice contribution	(\$5,000)	N/A
Taxable income	\$95,000	\$100,000
Less income tax*	(\$21,342)	(\$22,967)
Less after-tax contribution	N/A	(\$5,000)
Net salary	\$73,658	\$72,033
Net super contribution	\$4,250	\$5,000
End position (net salary plus super contributions)	\$77,908	\$77,033

*Excludes Medicare levy and low income tax offset



Is there a limit on salary sacrifice contributions?

Yes, there are annual limits on the amount of money you can put into super and receive tax concessions on. Salary sacrifice and employer superannuation guarantee contributions are defined as 'concessional contributions'. For the 2021-22 financial year the limit on concessional contributions is \$27,500 a year.

What else do you need to know?

Salary sacrifice may not be for everyone. For example salary sacrifice contributions do not count towards a government co-contribution, so for this reason alone, after-tax contributions may give you a better outcome.

If you are aged 67 or more, a work test applies. This means you can't make salary sacrifice contributions unless you have worked at least 40 hours in any consecutive 30-day period during the same financial year in which the contributions are made.

You can only make salary sacrifice contributions up to age 75 (provided you continue to be eligible to make contributions to super).

As with most super savings, salary sacrifice contributions must remain in the superannuation system until you meet a condition of release, such as retirement from the workforce after attaining your preservation age.

Defined Benefit Members

If you are a defined benefit member of FES Super you are required to pay 6.25% of your after-tax superannuation salary into the Fund. This contribution is automatically deducted from your pay each pay period. These compulsory contributions cease at age 65.

With the agreement of the Superannuation Board and your employer, you may also be able to make these contributions from before-tax income (i.e. via salary sacrifice). Under a salary sacrifice arrangement, you will be required to pay 7.35% of your superannuation salary into the Fund (which equates to 6.25% after the 15% superannuation contributions tax has been deducted).

The Fund also has an option available for defined benefit members to contribute an extra 3.5% of their after-tax superannuation salary to increase the Fund membership multiple from 18% to 21.5% for each year of contributing membership. The extra 3.5% can be paid from your after-tax income or through a salary sacrifice arrangement with the agreement of your employer. Under a salary sacrifice arrangement, you will be required to pay an extra 4.12% of your superannuation salary into the Fund (which equates to 3.5% after the 15% superannuation contributions tax has been deducted).

This election to contribute an extra 3.5% of your after tax superannuation salary will take effect from 1 July after the Fund receives notice from you that you wish to contribute this additional amount and will remain in force until the 30 June immediately following the date the Fund receives notice from you of its required cancellation. That is, the extra 3.5% contribution can only be paid for a complete financial year and not for part of a financial year.

The annual concessional contribution limit for salary sacrifice contributions also applies for defined benefit members of FES Super. A notional taxed contribution (NTC) amount for defined benefit members is calculated by the FES Super Actuary to partially determine the level of annual concessional contributions that applies to each defined benefit member. The NTC for you is reported to the Australian Taxation Office each financial year.



It is important to remember that FES Super doesn't monitor your standard member and employer contributions, or your ongoing voluntary contributions. To ensure you don't exceed the concessional or non-concessional contribution limits, you should keep a record of the ongoing total of your contributions each financial year. If you are a Department of Fire and Emergency Services employee you can refer to your last payslip for details of the year to date contributions your employer has paid to FES Super for you, which will give you an estimate of the concessional contributions paid at that date.

The annual concessional contribution limit that applies to you are the combined contributions going into all your super funds (if applicable) and not just the amounts paid to FES Super.

The following is how a notional taxed contribution (NTC) is calculated by the Fund Actuary for defined benefit members of FES Super.

The NTC for each defined benefit member is calculated annually by way of the formula:

$1.2 \times (\text{NER} \times \text{S} \times \text{D}/365 - \text{M})$, where

- (a) NER is 9% for members accruing benefits in the Fund with a membership multiple of 18% per annum and 11% for members accruing benefits in the Fund with a membership multiple of 21.5% per annum
- (b) S = superannuation salary on the first day of the financial year
- (c) D = days of accruing membership in the financial year in that benefit category
- (d) M = amount of member after tax contributions paid by or on behalf of the member which are NOT assessable income of the Fund, while in that benefit category, to meet the defined benefit.

For example, a member accruing defined benefits at 18% each year, who worked for the full year to 30 June 2021 and who salary sacrificed \$7,353 (i.e. 7.35% of their salary of \$100,000) from their salary would have a NTC equal to:

$1.2 \times (9\% \times \$100,000 \times 1 - 0)$, or **\$10,800**.

Any additional salary sacrifice contributions made to FES Super over and above those required to meet the necessary member contributions for the defined benefit will be allocated to an accumulation account in your name in the Fund.

Using the example above you would be able to salary sacrifice additional contributions of up to \$16,700 (\$27,500 less \$10,800) in the 2021/2022 financial year without exceeding your annual concessional contribution limit of \$27,500 (assuming that you have not had other employer superannuation contributions or salary sacrificed contributions paid to any other superannuation fund during the year).

If you have any queries on the content of this factsheet please contact the Superannuation Office on 08 9382 8444.