

Fact sheet



FOR MEMBERS

Salary sacrifice vs After-tax contributions

Deciding how to make contributions to super can be difficult. We examine the benefits and limitations of salary sacrifice versus after-tax contributions to help you determine the best option for you.

SALARY SACRIFICE What is it?

Salary sacrifice is a contribution you make to your super from your before-tax pay. The contribution is deducted from your total salary before income tax has been calculated, and forwarded to your super account.

A before-tax contribution is also called a "concessional" contribution. There is a limit to the amount of concessional contributions you can make in a financial year.¹

WHY SALARY SACRIFICE?

Salary sacrifice reduces your taxable income, so you pay less income tax. Only 15% tax is deducted from your salary sacrifice amount to super compared to the rate you pay on your income, which can be up to 47% (including the Medicare Levy). You should consider your marginal income tax rate when determining whether salary sacrifice is beneficial for you.

The tax rate on the investment growth your super earns is also a maximum of 15%.² This can be much lower than the tax on investments outside superannuation.

The compulsory superannuation guarantee contribution provided by your employer might not be enough to fund the retirement you want. Salary sacrifice can allow you to give your super the helping hand it needs to meet your retirement goals.

Take a look at the example "How salary sacrifice can save you tax" to see the benefits.

¹You can read more about these limits in our Contribution Limits Fact Sheet.

²The investment return we publish is already net of tax.

HOW SALARY SACRIFICE CAN SAVE YOU TAX

Sam's salary is \$85,000. If he sacrifices \$5,000 to super, he will pay \$750 contributions tax instead of \$1,725 income tax and Medicare levy, giving him \$975 more to invest.

	WITH SALARY SACRIFICE	WITHOUT SALARY SACRIFICE
Gross salary	\$80,000	\$85,000
Salary sacrifice	\$5,000	\$0
Income tax*	\$18,067	\$19,792
Contributions tax	\$750	\$0
Net benefit (take home pay + salary sacrifice)	\$66,183	\$65,208

* The figures in the above table are estimates only and are based on the income tax rates and limits applying for the 2020/21 financial year (Income Tax includes the Medicare Levy and is net of the Low and Middle Income Tax Offset effective 1 July 2020). The superannuation guarantee is 9.5% and for the 2020/21 financial year an individual can make a before-tax contribution to super of up to \$25,000.

HOW MUCH CAN I CONTRIBUTE?

You may contribute up to \$25,000 for the 2020/21 financial year.

Remember that your employer's contributions (including any amounts they pay towards the administration costs and insurance premiums in VISSF) also count towards the concessional contribution limits.

It is up to you to monitor your contributions and ensure the limit is not exceeded. Contributions above the limits will be taxed at your marginal tax rate (including the Medicare Levy), plus an interest charge, and are also counted towards your after-tax (non concessional) contribution limit.

You can monitor your super by visiting our website at www.vissf.com.au. Just log in to Member Online to find up to date figures.

THINGS TO CONSIDER

Salary sacrifice is not offered by all employers. Check with your payroll officer or Human Resources (HR) department to see if your employer allows you to salary sacrifice.

Salary sacrifice contributions are not counted towards the Government co-contribution scheme³. If you only make salary sacrifice contributions you won't be eligible to receive a co-contribution.

You may still qualify for a co-contribution by making after-tax contributions to super along with your salary sacrifice.

It is not compulsory for employers to pay superannuation guarantee contributions on income you salary sacrifice. Your employer may choose to calculate their contribution based on your income after the salary sacrifice has been deducted. This would reduce the amount that they pay to your super. Your payroll office or HR will be able to tell you how your employer will calculate their contribution.

AFTER-TAX CONTRIBUTIONS

What are they?

After-tax (non-concessional) contributions are deducted from your salary after your income tax has been deducted. You may also make one-off after-tax contributions to your account with any savings you have.

How much can I contribute?

You may contribute up to \$100,000 per financial year (provided you have not reached the transfer balance cap). However, to accommodate larger contributions, people under age 65 are allowed to bring forward two years of contributions, up to a total of \$300,000.

For example, a person under age 65 is able to make up to \$300,000 of contributions in one financial year but will then be unable to make further non-concessional contributions for the next two financial years.

WHY AFTER-TAX CONTRIBUTIONS?

If your total assessable income is lower than the relevant income threshold, making after-tax contributions may qualify you for a co-contribution from the Government of up to \$500³.

No contributions tax is deducted from your after-tax contributions (provided you do not exceed the contribution limits). If you have a very low income your income tax rate may be lower than the 15% contributions tax deducted for salary sacrifice, so you could pay less tax by making after-tax contributions rather than salary sacrifice. This is particularly true for people who have low income and receive franked dividends from any share investments.

Things to consider

After-tax contributions are taxed at your marginal tax rate before entering your super account. Your marginal tax rate could be up to 47% (including the Medicare Levy).

Any after-tax contributions made in excess of the contribution limit will be taxed at 47% (including the Medicare Levy) on top of the income tax you have already paid.

COMPARE SALARY SACRIFICE AND AFTER-TAX CONTRIBUTIONS ONLINE

The Moneysmart Super Contributions Optimiser can help you investigate how making contributions to super, salary sacrifice and after-tax, can affect your take-home pay and your net contribution to super.

By trying different assumptions about your annual income and the amount you want to contribute to super, the calculator can help you understand whether you're making the most of your super contributions.

Visit

www.vissf.com.au/resources-calculators to access the Super Contributions Optimiser.

³You can read more about co-contributions in our Super Co-contribution Fact Sheet

ADVICE ON CALL

As a VISSF member, you can access bite size pieces of financial advice on an extensive range of topics - at no cost, over the phone.

Getting Started

For those just getting started with their money management, these might include:

- Finding lost super
- Consolidating your accounts
- Making an investment choice
- Your contribution options

While retirement may seem like a distant concern, taking some easy, simple steps now can turbocharge your future wealth.

Building More

You don't have to be earning a lot of money to grow your wealth. Our experts can advise you on:

- Choosing the right investment option
- Ways to make extra contributions
- How to save on tax and grow your money
- Protecting your wealth using insurance

Whatever your situation, we want you to feel secure and confident about doing more to build your future wealth.

Retire Ready

Preparing for retirement can be daunting, but it's never too early to start planning. Here's how we can help.

- Work out how much you will need
- Explore your retirement options
- Learn how to set up a regular income stream
- Understand your risk tolerance
- Make the right investment choice

If retirement is on your radar, the earlier you start planning the more likely you are to retire on your terms.

Call 1300 660 027 to take advantage of our phone based financial advice services for members.

NEED HELP?

Call us on 1300 660 027

Website: www.vissf.com.au

Email: super@vissf.com.au

We're available between 8am and 5pm, weekdays. If you need to get in touch outside this time, email is the best way.

Postal Address

GPO Box 4974

Melbourne VIC 3001