

# Salary Packaging to Superannuation

Sacrificing part of your income into a superannuation fund can be a tax-effective way to build an investment portfolio to support yourself in retirement.

## What is a salary sacrifice?

Salary sacrificing, by definition, means to give up some of your cash salary in exchange for other benefits, generally of a similar value before tax.

While you can choose to salary sacrifice for a number of benefits, such as laptops and cars, salary sacrificing into superannuation can be a great strategy to assist you to build an investment portfolio to support yourself in retirement.

In order to provide an incentive for individuals to save towards their retirement, the Government offers a number of tax concessions for contributions made into a superannuation fund via a salary sacrifice.

## What are the benefits of salary sacrificing into super?

1. Salary sacrificing into a superannuation fund is a disciplined approach to building an investment portfolio

Regular contributions are automatically forwarded by your employer to your superannuation account.

2. Contributions salary sacrificed into superannuation attract tax at the rate of 15%. This compares with the marginal tax rates of up to 46.5% (plus flood levy) which apply to cash salary.

This tax benefit will generally result in an immediate increase in the net benefit of an employment package.

Salary package: \$100,000		
↓		
Option one - Cash only		
	Cash	
Salary	\$100,000	
Tax	\$26,700	
Net benefit	\$73,300	
<b>Total net benefit</b>	<b>\$73,300</b>	
↓		
Option two - Cash and Super		
	Cash	Super
Salary	\$80,000	\$20,000
Tax	\$18,900	\$3,000
Net benefit	\$61,100	\$17,000
<b>Total net benefit</b>	<b>\$78,100</b>	

3. Investment earnings on superannuation contributions are taxed at the rate of 15%, whilst investment earnings generated by investment assets you hold directly are taxed at your marginal rate.

This means that for any given rate of earnings, the value of your investments will grow more quickly in a superannuation fund than if you had invested in your own name.

	Investment held...	
	Inside superannuation	By individual (marginal tax rate: 31.5%)
Net investment at start of Year 1	\$17,000	\$17,000
Investment earnings at 8% pa	\$1,360	\$1,360
Tax	\$204	\$428
<b>Net investment at end of Year 1</b>	<b>\$18,156</b>	<b>\$17,932</b>

4. If you want to obtain insurance cover to provide you or your family with benefits in the event of your death or disability, you may be able to obtain this cover more cheaply through your superannuation fund.

This is because superannuation fund trustees can often obtain insurance cover at group rates, and can also claim a tax deduction for the cost of the insurance premiums.

5. Wealth that you build up in your superannuation fund investment portfolio can be paid to you as a lump sum or as regular income payments once you have met a 'condition of release'.

These benefits will assist you to support your lifestyle in retirement.

### Are there any restrictions that I should consider before undertaking this strategy?

- Not all employers offer employees to sacrifice additional salary into superannuation. You should check whether your employer offers this option.
- Although the Government offers tax concessions for savings held within the superannuation system, it does limit the amount of contributions you can make into your fund each year before you will be charged a 'excessive contributions tax'.

As the rate of this tax is extremely high, you should consult your adviser before implementing a salary sacrifice strategy.

- Investments held inside a superannuation fund are generally subject to 'preservation'.

This means that you will not be able to withdraw any of your superannuation investments until you have met a 'condition of release'.

Most people will not meet a 'condition of release until they are permanently retired from the workforce, and have obtained their 'preservation age'.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
30 June 1964 or later	60

For this reason, a salary sacrificing strategy may not be appropriate for you if you may need access to your savings prior to this time.

- There are often restrictions on the type of disability cover which you can obtain through your superannuation fund, and may be placed by the superannuation fund on the amount of cover available to you.

You should always obtain advice from your financial adviser before cancelling or changing your insurance arrangements.

## Other considerations

There are a number of strategy alternatives which may be more appropriate for you than salary sacrificing, depending upon your current financial situation.

For example if you are currently holding large amounts of debt, it may be more beneficial to use any savings capacity you have to reduce this liability before salary sacrificing into your superannuation fund.

In addition, as you might not have access to your superannuation savings for a number of years, you should ensure that after implementing a salary sacrifice strategy:

- your cashflow will still be sufficient to meet your current requirements, and
- you will have sufficient savings outside of superannuation to pay for any unexpected expenses.

Your financial adviser will be able to discuss with you your strategy options, to assist you to formulate a financial strategy which is best suited to your current situation and to both your short and long term financial goals.

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