Super strategies

Sacrifice pre-tax salary into super

Contributing some of your pre-tax salary, wages or a bonus into super could help you to reduce your tax and invest more for your retirement.

How does the strategy work?

With this strategy, known as salary sacrifice, you need to arrange for your employer to contribute some of your pre-tax salary, wages or bonus directly into your super fund.

The amount you contribute will generally be taxed at the concessional rate of 15%[1], not your marginal rate which could be up to 47%[2]. Depending on your circumstances, this strategy could reduce the tax you pay on your salary, wages or bonus by up to 32%[3].

Also, by paying less tax, you can make a larger after-tax investment for your retirement, as the case study on the next page illustrates.

What income can be salary sacrificed?

You can only sacrifice income that relates to future employment and entitlements that have not been accrued.

With salary and wages, the arrangement needs to be in place before you perform the work that entitles you to the salary or wages.

With a bonus, the arrangement needs to be made before the bonus entitlement is determined.

The arrangement, which should be documented and signed by you and your employer, should include details such as the amount to be sacrificed into super and the frequency of the contributions.

Other key considerations

- Salary sacrifice contributions count towards the 'concessional contribution' cap. This cap is $27,500 in FY 2023/24, (increasing to $30,000 in FY 2024/25) or may be higher if you didn't contribute your full concessional contribution cap in any of the previous five financial years and are eligible to make 'catch-up' contributions. Tax implications and penalties apply if you exceed your cap.
- You can't access super until you meet certain conditions.
- Another way you may be able to grow your super tax-effectively is to make personal deductible contributions (see next page).

Seek advice

A financial adviser can help you determine whether salary sacrifice suits your needs and circumstances.

[1] Individuals with income above $250,000 in 2023/24 will pay an additional 15% tax on personal deductible and other concessional super contributions.

[2] Includes Medicare levy.

[3] With the revised Stage 3 tax cuts commencing on 1 July 2024, you may gain a greater tax benefit by using this strategy in 2023/24 compared to future years.

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Case study

William, aged 45, was recently promoted and has received a pay rise of $5,000, bringing his total salary to $90,000 pa.

He plans to retire in 20 years and wants to use his pay rise to boost his retirement savings.

After speaking to a financial adviser, he decides to sacrifice the extra $5,000 salary into super each year.

By using this strategy, he'll save on tax and have an extra $975 in the first year to invest into super, when compared to receiving the $5,000 as after-tax salary (see Table 1).

If he continued to salary sacrifice this amount into super, this could lead to William having an additional $228,500 in his super after 20 years (see Table 2).

Table 1. After-tax income vs salary sacrifice

Details	Receive pay rise as after-tax salary	Sacrifice pay rise into super
Personal super contribution	$5,000	$5,000
Less income tax at 34.5%[4]	($1,725)	(N/A)
Less 15% contributions tax	(N/A)	($750)
Net amount	$3,275	$4,250
Additional amount in super		$975

[4] Based on FY 2023/24 tax rates (includes Medicare levy). Under the revised Stage 3 tax cuts commencing 1 July 2024, William's marginal rate will reduce to 32% (including Medicare Levy) and the net tax savings of this strategy will reduce from 2024/25.

Table 2. Super balances[5]

Year	No salary sacrifice	Salary sacrifice into super	Difference
Year 5	$300,878	$327,497	$26,619
Year 10	$479,269	$547,868	$68,600
Year 15	$737,108	$869,834	$132,726
Year 20	$1,106,311	$1,334,811	$228,500

[5] **Assumptions:** A 20-year comparison based on contribution of $5,000 pa (indexed) of pre-tax salary on top of compulsory superannuation guarantee (contributions made at end of each quarter). Super investments earn a total return of 7.50% pa, balances shown at the end of 5/10/15/20 year periods. All figures are after income tax of 15% in super and capital gains tax (including discounts). These rates are assumed to remain constant over the investment period. William's salary of $90,000 pa and the salary sacrifice amount subject to wage indexation of 4%. Investment returns and indexation rates sourced from **moneysmart.gov.au**. Difference does not take into account money potentially invested outside super if pay rise received as after tax salary.

Personal Deductible Contributions

Like salary sacrifice, making a personal super contribution and claiming a tax deduction may enable you to boost your super tax-effectively. There are, however, a range of issues you should consider before deciding to use this strategy.

Your financial adviser can help you determine whether you should consider making personal deductible contributions instead of (or in addition to) salary sacrifice.

You may also want to ask your financial adviser for a copy of our super strategy card, called 'Make tax-deductible super contributions'.

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