How can you salary sacrifice to save for retirement?

Salary sacrificing into superannuation can be a tax-effective way of saving for retirement. Salary sacrificing involves an employee entering into an agreement with their employer, where the employer contributes part of the employee's salary into their superannuation account without deducting the income tax they would otherwise have paid on this portion of their salary.

Who does this suit?	It works like this
– Those who are eligible to make a voluntary contribution to superannuation. Broadly, those aged between 18-66 are eligible, and those aged between 67-74 are also eligible if they meet a work test. – Individuals who are comfortable with not being able to access amounts contributed to superannuation until they meet a condition of release. Generally this occurs upon the earlier of attaining age 65, or fully retiring after attaining preservation age[1]. – Employees who are offered the option to salary sacrifice by their employers.	For the 2021/22 financial year, this potential tax saving applies so long as your 'total concessional contributions' (which are your compulsory superannuation guarantee contributions plus your salary sacrifice contributions, plus any personal contributions you claim as a tax deduction) are less than $27,500. It may be greater than $27,500 if you can use unused concessional contributions from 2018/19 until 2020/21 if your total superannuation balance is below $500,000 on 30 June 2021.

Top tip

Questions to ask an employer before entering into a salary sacrifice agreement:

- From when the salary sacrificed amount is deducted from a persons pay, how long will it be before this amount is directed into their superannuation fund?
- If the agreement is changed or cancelled, how much notice must be provided?

Benefits

The amount an individual salary sacrifices into superannuation is generally taxed at 15%[2]. This is likely to be lower than the marginal tax rate which applies to salary and other taxable income you may receive personally.

1 Preservation age: https://www.ato.gov.au/Rates/Key-superannuation-rates-and-thresholds/?page=9
2 An additional 15% tax may apply to higher income earners.

Example

How can Alistair who is 54 years old and has a salary of $78,000 increase his retirement savings, and pay less tax?

The following compares two scenarios for Alistair

1. Superannuation Guarantee	The only superannuation contributions he receives are the compulsory 10% superannuation guarantee of $7,800 ($78,000 x 10%).
2. Salary sacrifice	Alistair elects to salary sacrifice $300 a fortnight, which equates to $7,800 per year

	1. Superannuation Guarantee	2. Salary sacrifice
Salary	$78,000	$78,000
Salary after salary sacrifice	$78,000	$70,200
Income tax (including Medicare)	$16,297	$13,606
Take home pay	**$61,703**	**$56,594**
Total concessional contributions	$7,800	$15,600
Contributions tax	$1,170	$2,340
Net (post tax) contributions to super	**$6,630**	**$13,260**
Total tax payable	**$17,467**	**$15,946**

For the 2020/21 financial year, by salary sacrificing $300 per fortnight:

- Alistair's take home pay has reduced by $5,109 ($61,703 - $56,594) or $196.50 per fortnight.
- Alistair's total superannuation balance increases by $6,630 ($13,260 - $6,630), and
- Alistair total tax liability reduces by $1,521 ($13,260 - $6,630)

Take note

- Individuals can only sacrifice salary that which they are yet to earn i.e. the salary sacrifice agreement can only apply to salary an individual will earn after the date of the agreement.
- It is important to consider the impact salary sacrifice will have on an individual's take home pay, and whether they can afford this reduction in cashflow.

An alternative to salary sacrifice

Since 1 July 2017, if an employer does not offer salary sacrifice, or imposes conditions considered unacceptable, you may be able to achieve the same end outcome by making a personal contribution to your superannuation fund and claiming a tax deduction.

As personal contributions are made by an individual rather than their employer, it may be more difficult to manage from a cash flow perspective, and you only benefit from the tax advantage once you complete your tax return for the financial year, rather than at each pay period under the salary sacrifice option.

If an individual makes personal concessional contributions, it is important that within an allowed timeframe, they advise their super fund of their intention to claim a tax deduction, and that their tax return for the financial year reflects this election.

Need help

For more information on how to salary sacrifice please speak to me.

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