Salary Sacrifice into Super

Salary sacrificing into Super is an easy and tax effective way of making extra contributions into your Super fund to grow your retirement savings more quickly.

What is Salary Sacrifice?

Salary sacrifice is an arrangement between an employee and an employer whereby the employee chooses to forgo (or sacrifice) part of their salary as income, and instead has it paid into their superannuation account or towards another approved salary sacrifice arrangement. This fact sheet will only discuss salary sacrifice into Super.

How Does it Work?

This is best explained with an example.

David is aged 52 and earns $70,000 per year and is keen to grow his retirement savings. After carefully considering his spending, he's worked out that he can afford to direct $10,000 of after-tax income into growing his retirement savings this financial year.

With a salary of $70,000 p.a., David's marginal tax rate is 34.5% (including the Medicare Levy). Therefore, he needs to earn $15,267 of before-tax salary to receive $10,000 of after-tax income (because 34.5% or $5,267 is paid in tax).

David arranges with his employer to sacrifice $15,267 of his salary this financial year into his Super account. Because David's contributions into Super are taxed at 15%, $2,290 is "lost" in Contributions tax, resulting in the remaining $12,977 being added to his Super account.

The net annual tax saving of this arrangement can be calculated from this simple formula:

Benefit = Personal Tax Saved – Contributions Tax Paid
Benefit = $5,267 – $2,290
Benefit = $2,977

Are There Any Limits to Salary Sacrifice?

Yes. You can only contribute a total of $25,000 of pre-tax salary (called "concessional" contributions) into your Super each year. This includes the 9.5% Super Guarantee (SG) Contribution from your employer and any additional pre-tax contributions from either your employer or you.

What Else Should You Know?

- Money contributed into Super generally cannot be accessed until you reach age 60. Some exceptions apply.
- The benefit of this strategy is usually greater for higher income earners because their marginal tax rate is higher.
- The First Home Super Saver (FHSS) scheme allows eligible people to salary sacrifice into their Super fund for a house deposit. Rules and limits apply.
- Making a Personal Deductible Super Contribution can achieve the same tax savings as Salary Sacrifice.
- Most government benefits are calculated on your "adjusted income" which counts salary sacrificed amounts as if it was income you received.

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