



Package your super and pay less tax!

To ensure a comfortable lifestyle in retirement, the majority of Australians would be wise to supplement their employer's nine per cent Superannuation Guarantee (SG) contributions.

Salary packaging (also known as salary sacrificing) enables you to boost your super savings while potentially paying less tax.

Salary sacrificing into your super involves you sacrificing an amount from your pre-tax salary to make contributions to your super fund.

Lower tax on contributions

For most taxpayers the rate of tax on super contributions is much lower than their marginal tax rate. The following table illustrates the difference.

How much tax can salary packaging save you?

Taxable income + benefits	Marginal tax rate*	Super tax rate	Net tax saving on contribution
\$0 – \$6,000	0%	15%	Negative
\$6,001 – \$35,000	15%	15%	Nil
\$35,001 – \$80,000	30%	15%	15%
\$80,001 – \$180,000	38%	15%	23%
Over \$180,000	45%	15%	30%

* Individual tax rates for the 2009/10 financial year, excluding Medicare levy

Low or no tax in retirement

When you convert your super into a retirement income (whether it is a lump sum or a pension), you benefit from paying low or no tax. For those aged 55-59, a lump sum from your super is tax-free up to the tax-free threshold. A pension receives a 15% rebate on the taxable component. If you are aged 60 or over, all payments made from a taxed super fund are tax-free.

Lower tax on earnings

A super fund pays much less tax on investment earnings: up to 15% compared to marginal tax rates, which can be as high as 45%.

Regular additions to your retirement savings in super could accumulate considerably more than investments outside super.

Other super strategies

Two other strategies that you could consider in conjunction with salary packaging are making an after-tax contribution to qualify for the Government's Super Co-contribution and contributing to a super fund on behalf of your spouse.

Case study 1

The table below shows a salary packaging comparison for the 2009/10 financial year of two employees, each earning \$55,000 pa, who wish to make an additional after-tax super contribution of \$8,500 pa. One person contributes from take-home pay and the other through salary packaging.

	Not packaged \$	Packaged \$
Gross salary	55,000	55,000
Pre-tax super contribution	–	10,000
Tax on super contribution	–	-1,500
Gross salary less super contribution	55,000	45,000
Income tax on salary*	-11,175	-8,025
Low income tax offset	350	750
After-tax pay	44,175	37,725
After-tax super contribution	8,500	–
Take-home pay	35,675	37,725
After-tax value of package	44,175	46,225
Tax saving	–	2,050

* Includes Medicare levy

Note: The above example excludes the employer SG for the purposes of simplicity.

As shown, the person who salary packages saves \$2,050 in tax and has \$2,050 more in take-home pay.

How to get started

Before you take up salary packaging or any other super strategy, we recommend that you seek professional advice.

You need to be aware that salary sacrifice contributions to your super count towards your concessional contribution limit. For those aged under 50, this is \$25,000 pa per person. For those aged 50 and over, a transitional limit of \$50,000 pa applies until 30 June 2012.

Case study 2

The following example shows a salary packaging comparison for 2009/10 of two employees, each earning \$100,000 pa, who wish to make an additional after-tax super contribution of \$8,500 pa. One person contributes from take-home pay and the other through salary packaging.

	Not packaged \$	Packaged \$
Gross salary	100,000	100,000
Pre-tax super contribution	–	10,000
Tax on super contribution	–	-1,500
Gross salary less super contribution	100,000	90,000
Income tax on salary*	-26,950	-23,000
Low income tax offset	–	–
After-tax pay	73,050	67,000
After-tax super contribution	8,500	–
Take-home pay	64,550	67,000
After-tax value of package	73,050	75,500
Tax saving	–	2,450

* Includes Medicare levy

Note: The above example excludes the employer SG for the purposes of simplicity.

As shown, the person who salary packages saves \$2,450 in tax and has \$2,450 more in take-home pay.

To find out how you may benefit from salary packaging, speak to your financial adviser or call our client services team on 1800 333 900.

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