

Focus On Salary Sacrifice

Salary sacrificing can boost your retirement savings and slash your income tax bill.



If you're on a good wicket, the taxman takes up to 45 cents in the dollar in income tax. Have that dollar put into your superannuation fund by 'salary sacrificing' and you pay only 15 cents in tax.

Now the difference between 45 cents and 15 cents is 30 cents. Doesn't sound like much does it? But consider this. If you're earning in the highest income tax bracket and you salary sacrifice ten thousand dollars, the net tax saving is $10,000 \times 30 \text{ cents} = \3000 .

Wow! And you save even more than that as you don't end up paying the 1.5% Medicare levy on the amount 'sacrificed' to super.

If you're on a more modest income - see the example overleaf - you can still significantly reduce your income tax bill by salary sacrificing. Plus, you get to enjoy a raft of other benefits, as described in this article.

We are heading towards June 30. But if you're quick, there may still be time left to salary sacrifice and save on tax in the current financial year.

Salary sacrificing? What exactly is it?

Don't be put off by the word sacrificing. There's very little pain involved in instructing your employer to switch some of your income into your superannuation fund instead of into your bank account. And that's all salary sacrificing really is, a voluntary payment of part of your regular gross pre-tax income into superannuation.

No doubt you're aware that your employer already contributes an amount equal to 9% (or possibly more) on your gross income into your superannuation fund. They have to do this by law.

Salary sacrificing is money you have your employer deposit in your fund over and above the mandatory employer contribution to your super fund.

Three reasons to salary sacrifice

1. It's highly tax effective

Income tax is only levied on income you actually receive. You don't pay income tax on salary sacrifice contributions to super. Instead, your super contributions are taxed at a maximum rate of 15%. This represents a significant tax saving, particularly if you're on the highest marginal tax rate of 45%.

2. You're left with more money to investment

This difference in taxation means that more money is available for investment than if you were to receive the money as after-tax income and then invest it.

3. You pay less tax on super investment returns

The maximum tax on investment earnings from your superannuation is 15%. This is often significantly better than the tax on returns outside super, which can be as high as 45%.

Let's look at an example

Say you earn a salary of \$65,000. On this amount - without salary sacrifice contributions to super - your income tax bill is around \$15,075 (this figure includes the 1.5% Medicare levy).

Instead of taking the entire \$65,000 as cash salary, you elect to take \$60,000 as salary - and instruct your employer to pay the remaining \$5,000 into super.

Your pre-tax salary is reduced to \$60,000 and your income tax bill drops to around \$13,500 (again, this figure includes the Medicare levy).

The pre-tax super contribution of \$5,000 is now invested into your super fund. On this salary, and with the benefit of lower taxation rules that encourage us to invest into super, the \$5,000 contribution is taxed at 15% (equivalent to tax of around \$750).

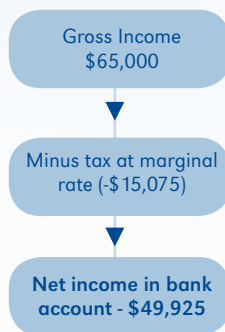
Your total tax bill - the sum of the income tax plus contributions tax - is (\$750 + \$13,500) = \$14,250.

Bottom line:

The \$5,000 pre-tax contribution to super has saved you around \$825 in tax!

As a result, you have \$825 more invested than if you took that \$5,000 as normal pay, paid your normal amount of income tax, and then invested what was left.

Without Salary Sacrifice



Assumes the individual is an Australian resident who earns no other income. Tax rates for 2008/09 financial year and include the Medicare levy.

Notes:

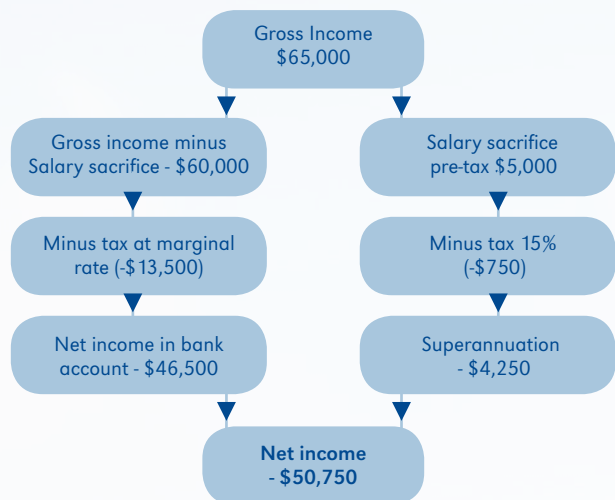
1. All superannuation contributions must be preserved in the superannuation environment.
2. Age-based limits continue to apply.
3. The first \$50,000 of employer (or self employed) deductible contributions will attract the concessional tax of 15%. Should any more of these contributions be made, then tax will be charged at 46.5% on that contribution.
4. If you are employed under an award or enterprise bargaining agreement it is possible that that limits or prohibits salary sacrifice contributions.

'Zero tax' from July 1

Did you know the following major superannuation tax changes have been proposed?

- Zero tax on pension payments from age 60
- Zero tax on lump sum withdrawals from age 60
- No upper limits on tax-free death benefits paid to a tax dependent

With Salary Sacrifice



For more advice on Salary Sacrifice and how Infocus can make your super even more super, contact your Infocus Financial Adviser.

Group Head Office & QLD State Office
Level 1 Kawana House, 1 Innovation Parkway
Birtinya QLD 4575

Call 1300 infocus

or visit infocus.com.au

infocus
Money Management

For Life

This document has been prepared for general information purposes only and not as specific advice to any particular person. Any advice contained in this document is General Advice and does not take into account any person's particular investment objectives, financial situation and particular needs. Before making an investment decision based on this advice you should consider, with or without the assistance of a securities adviser, whether it is appropriate to your particular investment needs, objectives and financial circumstances.

Infocus Securities Australia Pty Ltd trading as Infocus Money Management ABN 47 097 797 049 AFSL No. 236523